

ATTACHMENT 3

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Federal Communications Commission
Office of the Secretary

AT&T SERVICES, INC. AND PACIFIC
BELL TELEPHONE COMPANY D/B/A
SBC CALIFORNIA D/B/A AT&T
CALIFORNIA,

Complainants,

File No. _____

v.

COX ENTERPRISES, INC. AND COX
COMMUNICATIONS, INC.,

Defendants.

PROGRAM ACCESS COMPLAINT

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TABLE OF CONTENTS

I.	SUMMARY	1
II.	JURISDICTION	3
III.	THE COMPLAINANTS	3
IV.	THE DEFENDANTS	5
V.	STATEMENT OF FACTS.....	6
A.	AT&T’s U-verse TV Service.....	6
B.	Cox Has Consistently Refused To License Cox-4 To AT&T.....	8
C.	Cox’s Refusal To License Its Regional Sports Network Has Hampered AT&T’s Efforts To Provide U-verse TV Service To Consumers.	10
D.	Cox’s Actions Are Anticompetitive In Intent.....	13
VI.	LEGAL ARGUMENTS	17
A.	Cox’s Refusal To Deal Violates Section 628(b) Of The Communications Act.	17
1.	The Commission Has Made Clear That Section 628(b) Broadly Prohibits <i>Any</i> Conduct That Unfairly Depresses Competition For The Provision Of Satellite Video Programming..	19
2.	The Commission Has Recognized That Conduct Involving Terrestrially-Delivered Programming Can Implicate Section 628(b) By Hindering The Provision Of Satellite-Delivered Programming.....	21
3.	The Facts Here Show That Cox’s Actions Directly Hinder AT&T’s Ability To Offer A Viable, Alternative Video Service In San Diego.	25
4.	The Commission Should Be Particularly Sensitive Here To A Potential Violation Of Section 628(b) Given AT&T’s Role As A Wireline New Entrant, Section 706’s Mandate, And The Pro- Competitive Policies Of The 1996 Act.....	26

B.	The Commission Has Ancillary Authority To Require Cox To License Its Regional Sports Network To AT&T.	31
VII.	COUNT 1 — REFUSAL TO SELL PROGRAMMING IN VIOLATION OF THE COMMUNICATIONS ACT AND COMMISSION RULES	33
VIII.	REQUEST FOR DISCOVERY	33
IX.	REQUEST FOR PROMPT DECISION.....	34
X.	REQUEST FOR DAMAGES	34
XI.	REQUEST FOR PENALTIES	38
XII.	REQUEST FOR RELIEF	38
VERIFICATION OF CHRISTOPHER M. HEIMANN		
CERTIFICATE OF SERVICE		
ATTACHMENT A – DECLARATION OF DANIEL YORK		
ATTACHMENT B – DECLARATION OF CHRISTOPHER SAMBAR		

I. SUMMARY

1. AT&T provides U-verse TV—a multichannel, Internet-Protocol-based video programming service—to consumers in numerous cities, including San Diego. Pursuant to Section 628 of the Communications Act of 1934, as amended,¹ and the Commission’s program access rules, 47 C.F.R. §§ 76.1000 *et seq.*, AT&T brings this program access Complaint to redress the ongoing and repeated refusal of Defendants Cox Communications, Inc. and Cox Enterprises, Inc. to license their regional sports programming to AT&T in San Diego.

2. The Cox programming at issue—Cox-4, which includes exclusive live coverage of San Diego Padres baseball games—is precisely the type of “must have” programming identified by the Commission in its recent order extending the program access rules.² The Commission has recognized repeatedly that competitive video service providers must carry such programming to attract and retain subscribers. And the facts here show that AT&T’s inability to provide this “must-have” programming in San Diego has had a demonstrated, significant impact on the success of AT&T, as well as other competitive video providers, in obtaining subscribers. Furthermore, AT&T has experienced increased churn and order cancellations as a direct result of the lack of this vital programming—so much so that AT&T has been forced to require new customers to sign acknowledgements that AT&T does not carry Padres programming; customers

¹ 47 U.S.C. § 548.

² Report and Order and Notice of Proposed Rulemaking, *Implementation of the Cable Television Consumer Protection and Competition Act of 1992*, 22 FCC Rcd 17791, 17817 ¶ 39 (2007) (“We find that access to this non-substitutable programming is necessary for competition in the video distribution market to remain viable. An MVPD’s ability to compete will be significantly harmed if denied access to popular vertically integrated programming for which no good substitute exists.”) (“2007 Program Access Order”); *see also* Report and Order, *Implementation of the Cable Television Consumer Protection and Competition Act of 1992*, 17 FCC Rcd 12124, 12139 ¶ 33 (2002) (“2002 Extension Order”).

ordering by phone are required to listen to a specific disclosure. Indeed, AT&T estimates that as of July 2008, it had lost over **[highly confidential***** *****end]** in present and expected subscriber revenues due to the lack of Padres programming. Meanwhile, as a result of its exclusive access to Cox-4, Cox's hold on San Diego continues to be reinforced while the ability of competitors to provide an alternative source of video programming—and thus contribute to the diversity of programming channels—is substantially hampered.

3. While Cox contends that it may withhold Cox-4 programming with impunity because the channel is terrestrially delivered and thus outside the direct ambit of the Commission's rules adopted pursuant to Section 628(c) of the Act, this misses the point. Cox's actions have a demonstrated adverse impact on the ability of competitive video service providers to offer a viable alternative that includes satellite-delivered programming, and thus its withholding of Cox 4 directly affects the competitive distribution of the satellite-delivered programming that is expressly covered by the Act. The Commission has always recognized the possibility that abuse of the so-called "terrestrial loophole" could violate the Act by flouting Section 628(b)'s prohibition on "unfair methods of competition or unfair ... acts or practices" that have the purpose or effect of "hinder[ing] significantly or ... prevent[ing] any multichannel video programming distributor from providing satellite cable programming or satellite broadcast programming to subscribers or consumers."³ Section 628(b), as well as Sections 628(a) and 628(c) of the Act, authorize the Commission to take whatever reasonable steps may be necessary to protect and increase "competition and diversity in the multichannel video programming

³ 47 U.S.C. § 548(b).

market.”⁴ While the Act focuses in particular on competition with respect to satellite-delivered programming, the Commission has found that it must sometimes reach *beyond* such programming in order to promote that competitive goal. In fact, in its recent *MDU Order*, the Commission recognized that cable incumbents can violate this prohibition through actions that do not directly involve programming at all—like exclusive contracts for building access.⁵ Here, Cox’s anticompetitive actions have both the purpose *and* the effect of hindering AT&T’s ability to serve San Diego consumers, and “competition and diversity in the multichannel video programming market”—for satellite-delivered video programming—accordingly suffers. The Commission has authority to act here to achieve Congress’ objectives in the Communications Act, and it must do so.

II. JURISDICTION

4. The Commission has jurisdiction to consider this Complaint under Section 628(d) of the Act, 47 U.S.C. § 548(d).

III. THE COMPLAINANTS

5. Complainant Pacific Bell Telephone Company d/b/a SBC California d/b/a AT&T California (“AT&T California”) operates a communications network in California that provides access lines and associated services to residential and business customers. In portions of the state, including San Diego, AT&T California is a new, competitive multichannel video programming distributor that serves residential and commercial customers with an Internet

⁴ 47 U.S.C. § 548(a), (c)(1).

⁵ Report and Order and Further Notice of Proposed Rulemaking, *Exclusive Service Contracts for Provision of Video Services in Multiple Dwelling Units and Other Real Estate Developments*, 22 FCC Rcd 20235, 20245 ¶ 19 (2007) (“*MDU Order*”).

Protocol (IP) video service known as U-verse TV. AT&T California has been granted a state-wide franchise by the state of California to provide video services. AT&T California uses state-of-the-art broadband facilities to offer U-verse TV, which can be ordered alone or as part of various bundled offerings, including a robust “triple-play” offering that includes IP video, high-speed Internet access, and telephony.

6. Complainant AT&T Services, Inc. is a Delaware corporation with its principal place of business in San Antonio, Texas. AT&T Services, Inc. is a wholly owned subsidiary of AT&T Inc. that provides management and specialized services to its parent company and the parent company’s direct and indirect subsidiaries and affiliates. Among its other activities, AT&T Services, Inc. purchases products and services, including rights to television programming, on behalf of AT&T California and other affiliated communications service providers. *See* Declaration of Daniel York ¶ 2 (“York Decl.,” attached as Attachment A).

7. Complainants AT&T California and AT&T Services, Inc. are collectively referred to hereinafter as “AT&T.” AT&T is a multichannel video programming distributor (“MVPD”) for purposes of the Communications Act of 1934, as amended (“the Act”), and the Commission’s rules because AT&T “makes available for purchase, by subscribers or customers, multiple channels of video programming.” 47 U.S.C. § 522(13); 47 C.F.R. § 76.1000(e). Pursuant to 47 C.F.R. § 76.1003(c)(1), AT&T hereby provides the following contact information:

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1120 20th St., NW, Suite 1000
Washington, DC 20036
(202) 457-3058

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IV. THE DEFENDANTS

8. Cox Enterprises, Inc. is a Georgia corporation headquartered in Atlanta, Georgia.

9. Its wholly owned subsidiary, Cox Communications, Inc., a Delaware corporation also headquartered in Atlanta, provides cable programming, broadband Internet, and telephony services to residential and business customers. Cox Communications, Inc. is the incumbent cable operator in twenty-nine markets across the country, has over six million total residential and commercial customers, and is the third-largest cable television company in the United States.

10. Directly or through a subsidiary, Cox Enterprises, Inc. owns Cox-4 (also known as 4-SD), a video programming provider that carries programming relevant to the San Diego area, which in particular includes regional sports programming. Cox Enterprises, Inc. (or its subsidiary) has exclusive rights to games played by Major League Baseball's San Diego Padres, which it or its subsidiary provides to customers via Cox-4. The channel also provides sports programming coverage for San Diego State University, the University of San Diego, and local high school football teams. Cox-4 also includes local news and entertainment programming.

11. Cox Communications, Inc. is a "cable operator" for purposes of the Act and the Commission's rules because it "provides cable service over a cable system and directly or through one or more affiliates owns a significant interest in such cable system." 47 U.S.C. § 522(5), (6); 47 C.F.R. § 76.5 (a), (cc), (ff). Cox Enterprises, Inc. also is a "cable operator" because it "controls or is responsible for ... the management and operation of" a cable operator, namely, Cox Communications, Inc. 47 U.S.C. § 522(5); 47 C.F.R. § 76.5(cc); *id.* § 76.1000(b).

12. Hereinafter, Cox Enterprises, Inc. and Cox Communications, Inc. are collectively referred to as "Cox," except where explicit reference is made to either entity.

13. AT&T believes the relevant addresses and telephone numbers for Cox are:

Cox Communications, Inc.
1400 Lake Hearn Drive NE
Atlanta, Georgia 30319
(404) 843-5000

Cox Enterprises, Inc.
6205 Peachtree Dunwoody Road
Atlanta, Georgia 30328
(678) 645-0000

V. STATEMENT OF FACTS

A. AT&T's U-verse TV Service.

14. In an effort to bring competition to the market for video services, AT&T has launched Project Lightspeed, a multi-billion dollar initiative to deploy more than 40,000 miles of new fiber-optic facilities across AT&T's footprint in the United States. AT&T is using these state-of-the-art broadband facilities to deliver its U-verse service to customers. U-verse is a platform capable of supporting several services and service packages, including a robust "triple-play" offering of IP video, high-speed Internet access, and telephony.⁶ *See* York Decl. ¶¶ 4-5. This service promises to expand consumer choice and provide price and service-quality competition to the cable incumbents, including Cox. U-verse already is available in over 25 areas across the United States. *See id.* ¶ 6.

15. AT&T launched U-verse in San Diego just over a year ago, on June 4, 2007. The San Diego service is still in its vital initial stage as AT&T strives to attract subscribers and retain those it wins. Attaining a sufficient foothold in a reasonable time period is critical to attracting advertising at profitable rates and negotiating reasonable programming licenses. *See id.* ¶ 10.

⁶ Nearly all U-verse platform subscribers in San Diego—[highly confidential]***end] percent—purchase packages that include video service. *See* Declaration of Christopher Sambar ¶ 3 ("Sambar Decl.," attached as Attachment B). AT&T's damages calculation accounts for the small number of subscribers who do not purchase packages including U-verse TV service. *See id.* ¶ 30.

But this is a significant challenge: As a new entrant, AT&T must compete with incumbent cable providers Cox and Time Warner, which, in their essentially non-overlapping footprints, serve a combined 87.1% of all MVPD subscribers in San Diego.⁷ AT&T, which also sells AT&T/DISH TV service, also competes with other satellite services in the San Diego area—where satellite providers have a much smaller share of the market than their national average of 33%.⁸

16. In order to compete with the incumbent providers, and in particular with Cox and Time Warner in the San Diego area, U-verse TV must include the popular programming that consumers demand. As the Commission has recognized, certain programming is “must-have,” without which an MVPD cannot compete effectively in the marketplace.⁹ AT&T has been able to secure access to much of this content by licensing satellite-delivered programming from a variety of providers (including Cox) and has been able to assemble a program offering that includes over 250 channels of English and Spanish-language video programming, as well as additional premium packages, a video-on-demand library, and enhanced functions such as fast channel changing and network-supported picture-in-picture viewing. *See* York Decl. ¶ 7.

17. However, despite its best efforts, AT&T has been unable to secure access to the core “must-have” programming that it needs in San Diego—namely, Cox-4. As detailed below, Cox has repeatedly, deliberately, and definitively refused to license Cox-4 to AT&T, or even to enter into discussions concerning licensing terms.

⁷ 2007 *Program Access Order*, 22 FCC Rcd at 17828 ¶ 52 n.277 (2007).

⁸ *Id.* at 17818 ¶ 39 n.196 (citing 13.7% share for all non-cable MVPDs combined).

⁹ 2002 *Extension Order*, 17 FCC Rcd at 12139 ¶ 33; *see also* 2007 *Program Access Order*, 22 FCC Rcd at 17817 ¶ 39 (“We find that access to this non-substitutable programming is necessary for competition in the video distribution market to remain viable. An MVPD’s ability to compete will be significantly harmed if denied access to popular vertically integrated programming for which no good substitute exists.”).

18. Cox’s refusal to provide Padres programming is exacting a severe toll on AT&T’s MVPD subscription figures in San Diego—especially as compared to AT&T’s success in other areas across the country. And because AT&T’s ability to provide meaningful competition is being hampered, San Diego consumers are being deprived of a vibrant MVPD alternative and the associated service improvements, price reductions, and programming diversity—for satellite- and terrestrially-delivered programming. Cox’s actions also are affecting competition for broadband services and voice telephony, and for the “triple play” of all these services together.

B. Cox Has Consistently Refused To License Cox-4 To AT&T.

19. AT&T first began its efforts to license Cox-4 for U-verse TV in 2005. On October 5, 2005, J. Christopher Lauricella of AT&T sent an email to Debbie Cullen of Cox expressing interest in a carriage agreement for Cox-4 San Diego. *See* York Decl. ¶ 13 & Ex. 1. Ms. Cullen did not reply.

20. On October 12, 2005, Mr. Lauricella sent essentially the same email to Debbie Ruth of Cox. *See id.* ¶ 14 & Ex. 2. Ms. Ruth did not reply.

21. On October 17, 2005, Daniel York of AT&T spoke on the telephone with Michael Miller of Cox regarding AT&T’s interest in licensing Cox-4 San Diego. Mr. Miller explained that Cox was not accepting new affiliates. *See id.* ¶ 15.

22. Later that same day, Mr. York emailed Mr. Miller, requesting that Cox reconsider. *See id.* ¶ 15 & Ex. 3. In that email, Mr. York explained that “the carriage of local sports programming is of critical importance and value to consumers, and is essential for a successful launch of a video service in ... San Diego.” *Id.* He also requested that Cox explain why it was unwilling to license Cox-4 to AT&T “so that we can discuss a possible solution.” *Id.*

23. On October 27, 2005, Mr. Miller emailed in response, “to reconfirm our position that we are not accepting new affiliates for our Cox Ch. 4 in San Diego at this time.” *Id.* ¶ 16 & Ex. 4. He stated, “We are currently satisfied with our level of distribution of the service.” *Id.*

24. After the launch of U-verse in San Diego, it became increasingly clear that the lack of Cox-4 was a serious impediment, as explained below. On June 27, 2008, Daniel York accordingly renewed his attempts to negotiate, contacting Cox by telephone to discuss licensing Cox-4. Craig Nichols of Cox Media (who is also the General Manager of Cox-4) returned his call that day and stated that Cox was unwilling to license the programming to non-wireline or telephone video carriers. *See id.* ¶ 18.

25. That same day, Mr. York emailed Mr. Nichols memorializing their conversation and stating that “I sincerely hope you’ll allow us to become a distributor of this valuable content.” *Id.* ¶ 18 & Ex. 5.

26. On July 7, 2008, having received no reply from Cox to this email, Mr. York followed up with an additional email to Mr. Nichols, expressing interest in licensing Cox-4. *See id.* ¶ 19 & Ex. 5.

27. On July 9, 2008, Mr. Nichols wrote to Mr. York and reiterated that Cox would not license the channel. In that email, Mr. Nichols wrote, “[W]e are not currently distributing that channel to non-wireline or telco cable providers.” *Id.* ¶ 20 & Ex. 5.

28. On July 18, 2008, Mr. York sent a letter to Mr. Nichols, copying Cox General Counsel Andrew A. Merdek. Pursuant to 47 C.F.R. § 76.1003(b), that letter informed Cox of AT&T’s intention to file this Complaint if the companies were unable to reach a carriage agreement for Cox-4. *See York Decl.* ¶ 21 & Ex. 6. In that letter, Mr. York again asked Cox to

reconsider and explained that “the Cox-4 programming, and in particular the San Diego Padres baseball games, is critical to AT&T’s ability to provide a viable competitive video program service to San Diego consumers.” *Id.*

29. In a letter dated July 30, 2008, Mr. Nichols again refused to negotiate with AT&T concerning carriage of Cox-4. *See id.* ¶ 22 & Ex. 7. Although he acknowledged that Cox-4 is available to other *cable* providers, he nonetheless refused even to enter into discussions with AT&T: “While Cox makes Channel 4 San Diego available to some other traditional wireline cable competitors in the San Diego market, we reserve the right to make our own business decisions on additional distribution channels.” *Id.* Cox asserted that it had this right because the particular programming at issue is not satellite-delivered, and argued that depriving AT&T of the programming would not affect its ability to provide a successful competitive service. *See id.*

C. Cox’s Refusal To License Its Regional Sports Network Has Hampered AT&T’s Efforts To Provide U-verse TV Service To Consumers.

30. Objective data show that the lack of Padres programming is significantly hampering AT&T’s efforts to gain and keep subscribers for U-verse TV in San Diego, and thus to provide both satellite-delivered and terrestrially-delivered video programming to consumers.

31. In 2008, AT&T’s Customer Analytics and Research division conducted a study of 132 people examining the impact that the lack of Padres programming would have on AT&T’s ability to attract and retain customers. *See* Sambar Decl. Ex. 4. The study shows that over [highly confidential*** ***end] percent of San Diego video programming customers surveyed believe it is “important” or “extremely important” to “have the Padres channel included as part of [their] cable or satellite channel lineup.” *Id.* ¶ 7 & Ex. 4 at 18. Further, over [highly confidential*** ***end] percent of those surveyed stated they would be “somewhat

unlikely” or “extremely unlikely” to consider service from a television service provider that did not offer Cox-4, even if that provider offered incentives such as tickets to Padres baseball games or a \$50 Visa gift card. *See id.* ¶ 7 & Ex. 4 at 17.

32. A 2007 study produced similar results, though the trend has apparently steepened slightly in 2008—in 2007, **[highly confidential*** ***end]** percent of respondents considered it “important” or “extremely important” that Cox-4 be included as part of their video service. *See id.* ¶ 6 & Ex. 2 at 19.

33. Further, in that 2007 survey, many individual respondents made clear just how important Cox-4 was to their selection of an MVPD. **[highly confidential*** ***end]** percent of respondents identified Cox-4 as one of their favorite channels, and among that subgroup, **[highly confidential*** ***end]** percent said they would “definitely” switch providers if Padres programming were not offered. *See id.* ¶ 6 & Ex. 2 at 14-15. When asked “If the Padres Channel were not available on your TV program service, what would you accept as a substitute?” responses included: “Nothing!!!”; “I can’t loose my Padres Channel”; “The big problem with satellite service is that we can not get the channel 4 padre station”; “There [would] not be a substitute for not getting the Padres”; “The only thing we can tell you is that that is the only reason we have chosen NOT to change from COX. [W]e love watching the Padres games ...”; and “Padres games are the most important television programs in our home. Only providers of Padres games are under consideration whatsoever. No substitute is possible.” *See id.* at Ex. 3; *see also id.* at Ex. 2, at 22.

34. The attitudes reflected in these studies have had a concrete effect on U-verse sales in San Diego. San Diego’s average monthly rate of sales per thousand living units—**[highly**

confidential*** *****end]**—is **[highly confidential***** *****end]** percent lower than the median rate of **[highly confidential*****

*****end]**. *See* Sambar Decl. ¶ 10. Indeed, San Diego’s sales rate is **[highly confidential***** *****end]**. *See id.* Further, a January 2008 door-to-door salesperson survey reports that, of **[highly confidential***** *****end]** potential customers who declined to purchase U-verse TV, **[highly confidential***** *****end]** cited the lack of Padres programming as the reason for their decision. *See id.* at Ex. 5.

35. Moreover, Cox’s refusal to provide access to Padres programming has had a marked detrimental impact on AT&T’s customer retention. AT&T’s disconnect (“churn”) rate in San Diego has been significantly higher in every single month of operation than in other areas in which AT&T offers U-verse. For the past year, for example, the average monthly U-verse churn rate in **[highly confidential***** *****end]** has been **[highly confidential***** *****end]** percent, while the churn rate for San Diego has been **[highly confidential***** *****end]** percent—almost **[highly confidential***** *****end]** percent higher. *See id.* ¶ 11. AT&T also has suffered a higher rate of order “cancellations” in San Diego—*i.e.*, instances where a prospective subscriber cancels a service order before U-verse service has been activated. *See id.* ¶ 26.

36. Much of this increased loss of existing and prospective customers can be directly attributed to the lack of Padres programming. Based on data collected in March through May of 2008 by AT&T’s customer-retention “save team,” **[highly confidential***** *****end]** percent of subscribers who disconnected, and **[highly confidential***** *****end]** percent of subscribers who canceled service, cited the lack of Padres programming as the reason. *See id.*

¶ 9 & Ex. 6. This has become such a significant concern for AT&T that it has been forced to modify its point-of-sale disclosures to require customers to affirm, in writing, that they have been advised that U-verse TV does *not* include Padres programming. Customers subscribing over the phone must listen to this same explicit disclosure. *See id.* ¶ 12 & Ex. 8.

37. These lost customers are having a significant impact on AT&T's revenues in San Diego. AT&T estimates that the loss of existing and prospective customers during the period from September 2007 through July 2008 has resulted in over [highly confidential***

end] in lost present and expected revenues, and nearly [highly confidential

***end] lost sales, cancelled orders, and service disconnections. *See id.* ¶¶ 21-32 & Ex. 7.

38. In short, Cox's refusal to license Cox-4 directly impedes AT&T's ability to add a viable competitive MVPD voice in San Diego—one that could offer new satellite-delivered programming as well as other programming.

D. Cox's Actions Are Anticompetitive In Intent.

39. Cox is clearly aware of, intends, and capitalizes on the handicap it has created. Cox publicly touts in San Diego the fact that it is the sole provider in its core service area that offers access to Padres games.

40. Cox's website, for example, advertises Cox-4 as "All Padres ... All HD ... All the time ... **only on cable!**" *See* Sambar Decl. ¶ 13 & Ex. 9 (emphasis in original). This statement appears in Cox's email advertising too. *See id.* at Ex. 10. And the company's website proclaims that "Cox values its partnership with the local community and will give you the best coverage of local sports with Channel 4 San Diego, including 150 Padres games in HD. *You won't find that*

on satellite.” See id. at Ex. 9, at 5 (emphasis in original). Cox’s television advertising similarly touts its exclusive access to Padres programming. *See id.* at Ex. 11.

41. Furthermore, Cox licenses Cox-4, including the Padres games, to Time Warner, which provides incumbent cable services in areas adjacent to Cox’s San Diego footprint but does not compete with Cox.¹⁰ In other words, Cox is affirmatively in the business of selling Cox-4 programming—but it withholds such programming where it believes doing so will give it the ability to undermine competing video services. As noted above, Craig Nichols of Cox stated directly in an email that it was Cox’s policy to refuse to license Cox-4 to “non-wireline or telco cable providers.” *See supra*, at ¶ 27. In short, and as documented by the Commission, Cox refuses to sell Cox-4 programming both to AT&T and to direct broadcast satellite (“DBS”) providers serving San Diego¹¹—and uses this to its advantage in trying to retain or win back customers.

42. The Commission has found, and Cox is therefore undeniably aware (as its advertising demonstrates), that withholding key regional sports network (“RSN”) programming detrimentally affects video competition—including competition for the provision of satellite-delivered programming. Regional sports programming is among the “cable-affiliated programming networks that are demanded by MVPD subscribers and for which there are no

¹⁰ While Cox and Time Warner are legally entitled to compete against one another throughout the state, as a practical matter, their footprints overlap only within one neighborhood in San Diego, which accounts for less than one percent of the cable franchise footprint. *See Sambar Decl.* ¶ 14. Notably, Time Warner’s advertising in San Diego, like that of Cox, trumpets that Cox-4 is available “exclusively on cable.” *See id.* & Ex. 13 at 1-3.

¹¹ *See 2007 Program Access Order*, 22 FCC Rcd at 17817 ¶ 39 (“[T]here is factual evidence that cable operators have withheld [RSN] programming from competitors and, in two instances—in San Diego and Philadelphia—there is empirical evidence that such withholding has had a material adverse impact on competition in the video distribution market.”).

adequate substitutes.”¹² As the Commission has explained, this is because RSNs “typically purchase *exclusive rights* to show sporting events, and sports fans believe that there is no good substitute for watching their local and/or favorite team play an important game.”¹³

43. The Commission has recognized that a provider’s ability to retain customers “would be jeopardized” without this programming.¹⁴ It found that “there is substantial evidence that a large number of consumers will refuse to purchase DBS service if the provider cannot offer an RSN”¹⁵ and that “lack of access to RSN programming can decrease an MVPD’s market share significantly because a large number of consumers will refuse to purchase the MVPD’s service and will instead elect to purchase service from the cable operator that offers the RSN.”¹⁶

44. To put this in more concrete terms, the Commission has noted that between 40 and 48 percent of cable subscribers would be less likely to subscribe to an MVPD service that

¹² *Id.* at 17816 ¶ 38.

¹³ Memorandum Opinion and Order, *General Motors Corporation and Hughes Electronics Corporation, Transferors and the News Corporation Limited, Transferee, for Authority to Transfer Control*, 19 FCC Rcd 473, 535 ¶ 133 (2004) (“*General Motors Order*”) (emphasis added). *See also* Brief for Respondent Federal Communications Commission, *Cablevision Systems Corporation v. FCC*, Nos. 07-1425 & 07-1487, at 35 (D.C. Cir. Aug. 13, 2008) (“*FCC Cablevision Brief*”) (“[A] baseball fan who wants to watch the local team’s games on a cable-controlled RSN [will not] be satisfied by different sports channels featuring different teams.”).

¹⁴ *See, e.g., 2002 Extension Order*, 17 FCC Rcd at 12139 ¶ 33 (“We agree with the competitive MVPDs’ assertion that if they were to be deprived of only some of this “must have” programming, their ability to retain subscribers would be jeopardized.”).

¹⁵ Memorandum Opinion and Order, *Applications for Consent to the Assignment and/or Transfer of Control of Licenses, from Adelphia Commc’ns Corp. to Time Warner Cable, Inc.*, 21 FCC Rcd 8203, 8271 ¶ 151 (2006) (“*Adelphia Order*”); *see also id.* at 8258-59 ¶ 124 (“RSNs are often considered ‘must-have programming’ ... Hence, an MVPD’s ability to gain access to RSNs and the price and other terms of conditions of access can be important factors in its ability to compete with rivals.”).

¹⁶ *2007 Program Access Order*, 22 FCC Rcd at 17817 ¶ 39 (citing *Adelphia Order*, 21 FCC Rcd at 8267-72 ¶¶ 140-51 & 8341-50, Appendix D).

lacks local sports programming.¹⁷ For example, “without access to the cable-affiliated RSN in Philadelphia, the percentage of television households that subscribe to DBS service in Philadelphia is 40 percent below what would otherwise be expected.”¹⁸

45. The Commission repeatedly has found that the withholding of Cox-4 in particular has adversely affected video competition in San Diego. In the *Adelphia Order*, for example, the Commission concluded that “[i]n the San Diego DMA, lack of access to RSN programming is estimated to cause a 33% reduction in the households subscribing to DBS service.”¹⁹ In the *2007 Program Access Order*, the Commission noted a similar market-share impact on competitive MVPDs generally: in San Diego, “the collective market share of competitive MVPDs is well below their national average of 33 percent,” and is instead 13.7 percent.²⁰ And in a brief filed just last month in the D.C. Circuit, the Commission explained that “the Philadelphia and San Diego examples provide ‘empirical evidence’ ... that the withholding of just a single network can impair the ability of competitive MVPDs to attract subscribers.”²¹

46. Cox has a particular incentive to withhold programming and drive AT&T out of San Diego, or at least weaken it as a local competitor. Cox is well aware that AT&T’s presence in San Diego stands to create significant cable price discipline for Cox. As the Commission and

¹⁷ *General Motors Order*, 19 FCC Rcd at 535 ¶ 133 & n.394.

¹⁸ *2007 Program Access Order*, 22 FCC Rcd at 17817-18 ¶ 39 (citing *Adelphia Order*, 21 FCC Rcd at 8271 ¶ 149).

¹⁹ *Adelphia Order*, 21 FCC Rcd at 8271 ¶ 149; *see also 2007 Program Access Order*, 22 FCC Rcd at 17817 ¶ 39 (“In San Diego, ... lack of access to [Cox-4] results in a 33 percent reduction in the households subscribing to DBS service.”).

²⁰ *2007 Program Access Order*, 22 FCC Rcd at 17817-18 ¶ 39 n.196 (citing data from Nielsen Media Research).

²¹ *FCC Cablevision Brief* at 38.

others have noted, markets with wireline competition have significantly lower cable prices than those with only DBS competition.²² Further, AT&T stands poised to offer “triple-play” competition to Cox, capturing not only video customers but lucrative broadband and VoIP customers as well.²³ Indeed, Cox is now offering its own high-speed Internet customers exclusive access to “Padres.TV”—a special service allowing Cox subscribers to watch all Padres games online. *See* Sambar Decl. ¶ 13 & Ex. 12.

VI. LEGAL ARGUMENTS

A. Cox’s Refusal To Deal Violates Section 628(b) Of The Communications Act.

47. Given the facts above, Cox’s refusal to deal with AT&T violates Section 628(b) of the Communications Act. Specifically, the withholding of Cox-4 is an unfair method of competition that has both the purpose and effect of significantly hindering AT&T’s ability to provide *satellite-delivered* programming to consumers in San Diego.

48. This conclusion follows naturally from the Commission’s recent *MDU Order*, in which the Commission made clear that Section 628(b) precludes *any* type of conduct that hinders competition for the provision of satellite-delivered programming *to customers*—and not simply conduct that limits *competitors’* access to such programming.²⁴ There, the Commission found that contract clauses giving cable operators exclusive access to apartment buildings and other MDUs are inconsistent with (and redressable through) Section 628(b) because, even though they

²² *See* Part VI.A.4, *infra* (discussing Commission orders and GAO reports showing that wireline competitors provide the most significant price discipline to cable operators and create pressure for cable operators to enhance their services and improve customer service).

²³ *MDU Order*, 22 FCC Rcd at 20245 ¶ 19 (“LEC entry is also likely to result in increased deployment of fiber to American homes at lower cost per residence, and a new competitor offering the “triple play” bundle of video, voice, and Internet access service.”).

²⁴ *Id.* at 20256 ¶ 44.

do not limit competitive MVPDs’ access to satellite-delivered programming, exclusivity clauses necessarily limit competition for the delivery of that programming to consumers.²⁵ The Commission also found that Section 628(c)(1) specifically requires the Commission to read Section 628(b) expansively so as to serve the statute’s explicit public interest goals of enhancing diversity and competition in the video distribution market.²⁶

49. By the same token, the Commission has acknowledged repeatedly that unfair and/or anticompetitive conduct with respect to terrestrially-delivered programming may be found to violate Section 628(b) if the purpose and/or effect of such conduct is to hinder competitive MVPDs’ efforts to provide satellite-delivered programming. As shown above, the facts here allow for no other conclusion: Cox is withholding terrestrially-delivered programming for the purpose of defeating competition from other providers of satellite-delivered programming in its service area, and its efforts are meeting with success, to the detriment of consumers.

50. For this reason, this Complaint need not and does not seek to have the Commission close the so-called “terrestrial loophole,” an issue pending in the general program access rulemaking proceeding.²⁷ It is not necessary to resolve here whether Section 628(b) can be read to directly preclude exclusive contracts for terrestrially-delivered programming in all circumstances. Withholding of this *particular* terrestrially-delivered programming directly

²⁵ *Id.* at 20237 ¶ 4.

²⁶ *Id.* at 20255 ¶ 42; *see also* Brief for Respondent Federal Communications Commission, *NCTA v. FCC*, Nos. 08-1016 & 08-1017, at 10 (D.C. Cir. July 25, 2008).

²⁷ *Cf.* Comments of AT&T, Inc., *Review of the Commission’s Program Access Rules and Examination of Programming Tying Arrangements*, filed in MB Docket No. 07-198, Jan. 4, 2008; Report and Order and Notice of Proposed Rulemaking, *Implementation of the Cable Television Consumer Protection and Competition Act of 1992*, 22 FCC Rcd 17791, 17859-61 ¶¶ 115-17 (2007).

depresses competition for satellite-delivered video programming in San Diego, and thus, on its face, directly contravenes the plain language of Section 628.

1. The Commission Has Made Clear That Section 628(b) Broadly Prohibits Any Conduct That Unfairly Depresses Competition For The Provision Of Satellite Video Programming.

51. Section 628(b) provides that it “shall be unlawful for a cable operator [or] a satellite cable programming vendor in which a cable operator has an attributable interest ... to engage in *unfair methods of competition* or *unfair* or deceptive *acts or practices*, the purpose or effect of which is to *hinder significantly* or to prevent any multichannel video programming distributor from providing satellite cable programming or satellite broadcast programming to subscribers or consumers.”²⁸

52. In the *MDU Order*, the Commission made clear that Section 628(b) broadly proscribes *any* “unfair methods of competition with the purpose or effect of hindering significantly or preventing MVPDs from providing satellite cable and broadcast programming to consumers.” *MDU Order*, 22 FCC Rcd at 20255 ¶ 43 n.132. The *MDU Order* also clarified that an “unfair method of competition or unfair act or practice” under Section 628(b) includes efforts “to impede the entry of competitors into the market and foreclose competition based on the quality and price of competing service offerings.” *Id.* at 20255 ¶ 43; *see also id.* at 20249 ¶ 27 (discussing the unfairness of “[f]oreclosing competition” and depriving consumers of choice).

53. The *MDU Order* demonstrates that such unfair acts or practices are *not* confined to those that directly involve the cable operator’s or programming vendor’s withholding of satellite-delivered programming. To the contrary, the Commission held that the statute must be

²⁸ 47 U.S.C. § 548(b) (emphasis added).

read to bar cable operators from engaging in *other* conduct that has the effect of frustrating *competitors'* efforts to provide satellite-delivered programming to customers:

[T]he Commission's authority under Section 628(b) is not restricted to unfair methods of competition or unfair or deceptive practices that deny MVPDs access to programming. Section 628(b) is not so narrowly drawn. Anticompetitive practices can hinder or prevent MVPDs from providing programming to consumers either by blocking their access to programming *or by blocking their access to consumers*, and there is nothing in Section 628(b) that suggests that the Commission's authority is limited to the former.... *[A]ny practices that unfairly deny MVPDs the ability to provide such programming to consumers are prohibited.*

Id. at 20256 ¶ 44 (emphasis added). Importantly, the Commission distinguished Section 628(b) from Section 628(c)(2)(D), characterizing the latter as “narrowly drawn” and focusing “explicitly on conduct that impairs MVPDs’ access to programming,” but characterizing Section 628(b) as much broader and reaching “any practices that unfairly deny MVPDs the ability to provide such programming to consumers.” *Id.* The Commission found that Section 628(c)(1) requires this reading, because it directs the Commission to adopt rules under Section 628(b) that “promote the public interest, convenience, and necessity by increasing competition and diversity in the multichannel video programming market.” *Id.* at 20255 ¶ 42. To that end, the Commission also found that Section 628(c)(1) “grants the Commission *wide latitude* to specify particular conduct that is prohibited by Section 628(b).” *Id.* at 20258 ¶ 48 (emphasis added) (alterations omitted).

54. Accordingly, the Commission found that “clauses that grant cable operators exclusive access to MDUs and other real estate developments fall within the scope of Section 628(b), because those clauses effectively prohibit new entrants into the MVPD market from providing satellite-delivered programming to consumers who live in MDUs and other real estate developments.” *Id.* at 20237 ¶ 4.

55. Under this rationale, other conduct that hinders a competitor's ability to provide satellite-delivered programming to customers must also fall directly within the reach of Section 628(b). No less than an exclusive building contract, Cox's conduct in San Diego interferes with AT&T's efforts to enter and establish a foothold in the video programming distribution market. Cox's behavior ensures that AT&T effectively will be "blocked" in its "access to consumers,"²⁹ because AT&T's service lacks a component many consumers consider essential. Competition and diversity in satellite-delivered video programming is thus degraded. The Commission has full power and authority to redress this harm under Section 628(b), and it should do so promptly.

2. The Commission Has Recognized That Conduct Involving Terrestrially-Delivered Programming Can Implicate Section 628(b) By Hindering The Provision Of Satellite-Delivered Programming.

56. The Commission's orders expressly recognize that the withholding of terrestrially-delivered programming can violate Section 628(b). Indeed, the Commission previously has entertained program access complaints on this basis. Although it found that the specific facts alleged in those earlier cases were not sufficient to demonstrate a violation, here the facts show that Cox's conduct is both intended to, and has the effect of, significantly hampering competition in San Diego. This case thus amply satisfies the test articulated by the Commission in those earlier cases, and further refined in the *MDU Order*.

57. For example, in its *DirecTV v. Comcast* decision, the Commission acknowledged that cable operators could violate Section 628(b) by denying access to programming on the basis of the terrestrial "loophole."³⁰ The Commission rejected DirecTV's complaint concerning

²⁹ *MDU Order*, 22 FCC Rcd at 20256 ¶ 44.

³⁰ Memorandum Opinion and Order, *DirecTV, Inc. v. Comcast Corporation*, 15 FCC Rcd

Comcast’s terrestrially-delivered programming, but it did so on factual grounds (“the facts alleged are not sufficient to constitute such a violation here”), while at the same time noting expressly that “there may be some circumstances where moving programming from satellite to terrestrial delivery could be cognizable under 628(b) as an unfair method of competition or deceptive practice if it precluded competitive MVPDs from providing satellite cable programming.”³¹

58. The Commission reiterated this position in the *RCN* case, finding that the withholding of certain terrestrially-delivered programming could violate Section 628(b) “if it preclude[s] competitive MVPDs from providing satellite cable programming.”³² Again, while the Commission rejected the complaint on the basis that “the facts alleged are not sufficient to constitute such a violation here,”³³ it nevertheless entertained the complaint as a legal matter, making clear that such a claim was legally cognizable if properly supported.

59. To be sure, the Commission in those cases focused on the question of whether the defendants had shifted programming from satellite to terrestrial distribution in an effort to evade the program access rules. But there is no logical reason that such anticompetitive conduct is any more a violation of Section 628(b) than Cox’s conduct here. While the plaintiffs in *RCN* and *DirecTV* alleged that moving the programming to terrestrial delivery was specifically designed to avoid Section 628(b)’s reach, Section 628(b) does not require anything of the sort: that

22802, 22806-07 ¶¶ 10, 13 (2000) (“*DirecTV Order*”).

³¹ *Id.* at 22807 ¶ 13.

³² Memorandum Opinion and Order, *RCN Telecom Services of New York, Inc. v. Cablevision Systems Corp.*, 16 FCC Rcd 12048, 12053 ¶ 15 (2001) (addressing claim that programming was moved from satellite to terrestrial delivery).

³³ *Id.*

prohibition is violated if conduct is (1) anticompetitive, and (2) has the effect or purpose of hindering the provision of satellite-delivered programming—all facts AT&T has shown here. This is expressly confirmed by the Commission’s decision in the *MDU Order*, which makes clear that Section 628(b) is broad enough to reach *any* type of anticompetitive behavior that significantly hinders a competitive video provider’s ability to supply satellite-delivered cable programming to consumers. *MDU Order*, 22 FCC Rcd at 20255 ¶ 43 & n.132.

60. That is no less true for anticompetitive acts involving terrestrially-delivered programming than it is for exclusive building contracts. In both cases, conduct not specifically prohibited by the Act may nevertheless violate the Act by disabling competitors from offering competitive video subscription services, thereby frustrating Section 628. As the Commission has explained, “[w]e ... have long recognized that the terrestrial distribution of programming—particularly RSN programming—by vertically integrated cable operators could competitively disadvantage competing MVPDs if they were denied access to the terrestrially delivered programming.”³⁴

61. The Commission has recognized expressly that it has the power to act to enforce Section 628(b)’s prohibition above and beyond the power granted to the Commission in the more restrictive provisions of Section 628(c), which is concerned with ensuring that MVPDs have *access* to satellite-delivered programming.³⁵ Rejecting the argument “that the regulatory requirements outlined in Section 628(c) circumscribe the Commission’s authority to prohibit

³⁴ *General Motors Order*, 19 FCC Rcd at 535 ¶ 133.

³⁵ *See, e.g., DirecTV Order*, 15 FCC Rcd at 22807 ¶ 12; *MDU Order*, 22 FCC Rcd at 20256 ¶ 44 (Section 628(c)(2) is “narrowly drawn” and “proscribes specific conduct hindering MVPDs’ access to programming”).

exclusivity clauses,” the Commission explained that Section 628(c) is a floor, not a ceiling: “[N]othing in these provisions [in 628(c)(2)] indicate that they were intended to establish the outer limits of the Commission’s authority under Section 628(b).” *MDU Order*, 22 FCC Rcd at 20258 ¶ 48. Further, the Commission explained, “the very title of Section 628(c)(2), ‘Minimum Contents of Regulations,’ strongly suggests that the rules the Commission was required to implement had to cover the conduct described in Sections 628(c)(2) at the least, but that the Commission’s authority under Section 628(b) was broader.” *Id.* Section 628(b) reaches not only “conduct that impairs MVPDs’ access to programming,” but also “any practices that unfairly deny MVPDs the ability to provide such programming to consumers.” *Id.* at 20256 ¶ 44; *see also id.* (“Had Congress wanted Section 628(b) to proscribe only practices denying MVPDs access to programming it could easily have done so by focusing that provision explicitly on conduct that impairs MVPDs’ access to programming. Congress knew how to draft narrowly drawn provisions of that kind as evidenced by another subsection, Section 628(c)(2).”). Thus, irrespective of whether there is a sufficient basis to adopt a *general* prohibition on exclusive contracts for terrestrially-delivered programming under Section 628(c)(2), the Commission can act to enforce the violation of Section 628(b) that is illustrated by the facts at issue here.

62. While granting this Complaint would advance delivery of both covered, satellite-delivered programming *and* terrestrially-delivered programming, that is irrelevant. That would have been the case in both *DirecTV* and *RCN*, but the Commission never suggested that this would disable it from acting. Further, in the *MDU Order*, the Commission found irrelevant the fact that its order would facilitate provision of terrestrially-delivered programming: “our decision to prohibit exclusivity clauses for the provision of video services to MDU owners is

consistent with the focus on satellite programming because *most programming* is delivered via satellite.”³⁶ Further, the providers who would benefit from the *MDU Order* would likely provide not only existing but new satellite-delivered programming—thus directly serving the goals of the Act.³⁷

3. The Facts Here Show That Cox’s Actions Directly Hinder AT&T’s Ability To Offer A Viable, Alternative Video Service In San Diego.

63. There is little doubt that the facts in this case support a Section 628(b) claim. Cox’s actions are intended to—and do—hinder AT&T’s provision of video programming to consumers and subscribers in San Diego, most of which, of course, is satellite-delivered programming that is expressly covered under the program access rules.

64. As discussed above, the Commission has recognized repeatedly that the type of programming provided on Cox-4 is “must have” programming, without which competitive MVPDs cannot compete effectively.³⁸ And the withholding of Cox-4 has in fact had the anticompetitive effects discussed in the Commission’s orders—lack of Padres programming has interfered with AT&T’s ability to offer *any* type of video programming in San Diego, including satellite-delivered programming. AT&T has experienced significantly lower U-verse subscription numbers in San Diego than in **[highly confidential]*****

*****end]**, a high rate of churn for existing customers, and a high rate of order cancellations before service has been activated. In other words, Cox’s conduct has hindered AT&T’s efforts to successfully serve consumers or continue to serve subscribers.

³⁶ *MDU Order*, 22 FCC Rcd at 20255 ¶ 43 n.132 (emphasis added).

³⁷ *See id.* at 20245 ¶ 18.

³⁸ *See* Part V.D, *supra*.

65. As noted above, there is considerable evidence that Cox is acting deliberately in order to stifle such competition. Cox trumpets its exclusive access to Padres programming in its advertising, and it has expressly conceded in the context of this dispute that it will not share Padres programming with “non-wireline or telco cable providers.”³⁹ At the same time, however, Cox is licensing the channel to Time Warner, an incumbent cable operator that primarily serves areas adjacent to Cox’s San Diego footprint. This licensing scheme demonstrates anticompetitive intent. In fact, in the *Adelphia Order*, the Commission identified such schemes as anticompetitive and imposed merger conditions designed to prevent them.⁴⁰

66. The facts enumerated in Part V above make it clear that Cox is withholding programming for the purpose of stifling AT&T’s efforts to serve as a competitive provider of satellite-delivered video programming in San Diego. Accordingly, Cox is violating Section 628(b)’s prohibition on “unfair methods of competition or unfair ... acts or practices” that have the purpose or effect of “hinder[ing] significantly or ... prevent[ing] any multichannel video programming distributor from providing satellite cable programming or satellite broadcast programming to subscribers or consumers.”⁴¹

4. The Commission Should Be Particularly Sensitive Here To A Potential Violation Of Section 628(b) Given AT&T’s Role As A Wireline New Entrant, Section 706’s Mandate, And The Pro-Competitive Policies Of The 1996 Act.

67. There are three additional reasons why the Commission should be particularly sensitive to a potential violation of Section 628(b) here.

³⁹ See *supra*, at ¶ 27; York Decl. at ¶ 20 & Ex. 5.

⁴⁰ *Adelphia Order*, 21 FCC Rcd at 8257 ¶ 120.

⁴¹ 47 U.S.C. § 548(b).

68. *First*, it is particularly important to remedy the anticompetitive damage done by Cox’s refusal to deal with AT&T because, as a wireline alternative to the cable incumbent, AT&T offers the type of competition that would advance the core policy mandates articulated by both Congress and the Commission for the video distribution market. *See* 47 U.S.C. § 548(a) (“The purpose of this section is to promote the public interest, convenience, and necessity by increasing competition and diversity in the multichannel video programming market”). As a new entrant, AT&T is expanding the market beyond the two main sources of competition that consumers have seen so far—cable and DBS. AT&T stands ready to bring diversity to the market, along with the innovation and choice that new entry typically produces from all players.

69. As the Commission and numerous independent observers have recognized, wireline competitors are uniquely positioned to exercise price discipline in the cable market. In the *MDU Order*, the Commission explained that “the presence of a second wire-based MVPD competitor clearly holds prices down more effectively than is the case where DBS is the only alternative.” 22 FCC Rcd at 20244-45 ¶ 17 & n.52. The Commission has noted that prices are 17 percent lower where wireline cable competition is present.⁴² Similarly, the GAO concluded that video entry by wireline competitors provides more price discipline to cable operators than DBS and is more likely to cause cable operators to enhance their services and improve their customer service.⁴³ The GAO found that rates for expanded basic cable television service were typically 15 to 41 percent lower in markets with a wireline video competitor, when compared

⁴² *See* Report on Cable Industry Prices, *Implementation of Section 3 of the Cable Television Consumer Protection & Competition Act of 1992; Statistical Report on Average Rates for Basic Service, Cable Programming Service, and Equipment*, 21 FCC Rcd 15087, 15087-88 ¶ 2 (2006).

⁴³ Government Accountability Office, *Telecommunications: Subscriber Rates and Competition in the Cable Television Industry*, GAO 04-262T at 6 (Mar. 2004).

with similar markets that did not have such a competitor.⁴⁴ Thus, Cox has a particular incentive to withhold must-have programming from AT&T.⁴⁵

70. Moreover, the impact of withholding Cox-4 is even greater on AT&T than on its DBS competitors. The marginal cost of providing service to San Diego for a DBS provider is relatively small and those providers can profitably compete for the portion of the market which lacks interest in the Padres. AT&T, on the other hand, offers U-verse TV over facilities exclusively devoted to service in San Diego, and the loss of access to a substantial portion of the subscribers there may make it uneconomic to provide video service at all. Furthermore, because it is difficult for a new entrant to succeed in the marketplace without offering potential subscribers the best programming lineup possible, *see* York Decl. ¶ 10, Cox’s withholding of “must-have” programming poses a significant impediment to AT&T’s ability to attain a sufficient foothold in San Diego. As the Commission has recognized, “because new entrants ‘have no established customer base,’ ... they are particularly vulnerable to competitive harm if, through withholding, cable incumbents are able to degrade the quality of their programming packages.”⁴⁶

71. If Cox’s anticompetitive behavior is permitted to depress competition from AT&T, the result will be less competition, less diversity, and lower-quality service for San Diego consumers—in contravention not only of Section 628(b) but also Section 601, which advocates

⁴⁴ Government Accountability Office, *Telecommunications: Wire-Based Competition Benefited Consumers in Selected Markets*, GAO-04-241 at 4 (Feb. 2004).

⁴⁵ *See 2007 Program Access Order*, 22 FCC Rcd at 17806 ¶ 24 (describing emergence of U-verse as “[a] significant development” in increasing competition for cable and citing comments on GAO study).

⁴⁶ *FCC Cablevision Brief* at 40 (quoting *2007 Program Access Order*, 22 FCC Rcd at 17820 ¶ 41).

“the widest possible diversity of information sources and services to the public” and the “promot[ion of] competition in cable communications.” 47 U.S.C. § 521(4), (6).

72. *Second*, any anticompetitive effect of withholding Cox-4 from AT&T inhibits not just the provision of video service, but also the provision of broadband and advanced services. Section 706 of the Telecommunications Act of 1996 requires the Commission to “encourage the deployment on a reasonable and timely basis of advanced telecommunications capability to all Americans ... by utilizing, in a manner consistent with the public interest, convenience, and necessity ... measures that promote competition in the local telecommunications market, or other regulating methods that remove barriers to infrastructure investment.”⁴⁷

73. The Commission has recognized that barriers to successful competitive entry by wireline MVPDs like AT&T “discourage investment in the fiber-based infrastructure necessary for the provision of advanced broadband services” by reducing “the promise of revenues from video services to offset the costs of such deployment,” and thus “defeat[] the congressional goal of encouraging broadband deployment.”⁴⁸ Here, AT&T’s inability to offer Cox-4 in San Diego reduces expected revenues from the U-verse TV service, which in turn affects the economic underpinnings of AT&T’s broadband deployment in San Diego by eliminating one of the key sources of revenues expected from such deployment. The result will be to depress competition not only for video but for high-speed Internet access, VoIP, and the “triple play” of video, data,

⁴⁷ Telecommunications Act of 1996, Pub. L. No. 104-104, § 706, 110 Stat. 56, 153 (codified at 47 U.S.C. § 157 note) (“Section 706”).

⁴⁸ Report and Order and Further Notice of Proposed Rulemaking, *Implementation of Section 621(a)(1) of the Cable Communications Policy Act of 1984 as Amended by the Cable Television Consumer Protection and Competition Act of 1992*, 22 FCC Rcd 5101, 5103 ¶ 3 & n.238 (2007) (“*Local Franchising Order*”).

and voice. Section 706 requires the Commission to interpret its Section 628(b) authority broadly in order to encourage the deployment of advanced telecommunications services.

74. In the *MDU Order*, the Commission did exactly that. It justified its broad prohibition on anticompetitive cable practices by pointing to its obligations under Section 706. For example, the Commission explained that the prohibition on exclusivity clauses “addresses the Congressional concerns underlying Section 628(b) It also will promote the development of new technologies that will provide facilities-based competition to existing cable operators, and thus serves the purposes set forth in Section 628(a) (as well as other provisions of law, such as Section 706 of the Telecommunications Act of 1996).” *MDU Order*, 22 FCC Rcd at 20257 ¶ 46; *see also id.* at 20258 ¶ 47 (“[O]ur interpretation of Section 628(b) to prohibit exclusivity clauses for the provision of video services is not only consistent with the plain language of that statutory provision and confirmed by that provision’s legislative history, but also furthers the broader purposes of the Act,” including Section 706).

75. Here too, the Commission should view its Section 628(b) authority in light of its obligations under Section 706. Both the Commission and the D.C. Circuit have recognized that “the Commission has the authority to consider the goals of Section 706 when formulating regulations under the Act.” *Local Franchising Order*, 22 FCC Rcd at 5132 ¶ 62 & n.238; *see also United States Telecom Ass’n v. FCC*, 359 F.3d 554, 580, 583 (D.C. Cir. 2004) (holding that the Commission properly considered Section 706 when deciding whether to require unbundling of fiber and hybrid loops). Here, it is clear that allowing Cox to continue to withhold Cox-4 from AT&T would thwart the purposes of Section 706.

76. *Finally*, the Commission should be particularly inclined to interpret its powers under Section 628 so as to eliminate the significant entry barrier posed by Cox's withholding of Cox-4, given the policy of the 1996 Act to encourage new entry generally. This market-opening policy has led the Commission to impose numerous obligations on AT&T to provide facilities and services to competitors seeking to enter AT&T's core line of business in San Diego. It should likewise inform the Commission's interpretations of the Act when AT&T is entering the core market of those competitors. A narrower reading of the Commission's Section 628 authority would unfairly tilt the playing field in favor of the cable incumbents, allowing them to benefit from Congress's market-opening objectives without contributing to that same end.

77. For all of the foregoing reasons, the Commission should grant AT&T's program access Complaint and hold that Cox's refusal to license Cox-4 violates Section 628(b).

B. The Commission Has Ancillary Authority To Require Cox To License Its Regional Sports Network To AT&T.

78. Even leaving aside the direct reach of Section 628(b), the Commission has ancillary authority to require Cox to deal with AT&T in order to effectuate the goals and purposes of the Act, including Title VI generally, and Sections 628 and 706 in particular.

79. Congress set out the purposes of the program access statutes in Section 628(a) of the Communications Act. That provision states:

The purpose of this section is to promote the public interest, convenience, and necessity by increasing competition and diversity in the multichannel video programming market, to increase the availability of satellite cable programming and satellite broadcast programming to persons in rural and other areas not currently able to receive such programming, and to spur the development of communications technologies.⁴⁹

⁴⁹ 47 U.S.C. § 548(a).

As noted above, Congress also mandated, in Section 706, that the Commission encourage the deployment of advanced services to the public, “by utilizing, in a manner consistent with the public interest, convenience, and necessity ... measures that promote competition in the local telecommunications market, or other regulating methods that remove barriers to infrastructure investment.”

80. For the reasons discussed above, Cox’s withholding of Cox-4 from AT&T and other competitive MVPDs in San Diego undermines both of these statutory provisions.

81. The Commission has ancillary authority to issue whatever orders or rules are necessary to prevent Cox’s anticompetitive behavior from thwarting the purposes of Sections 628 and 706, not only under Section 628(c)(1) but also pursuant to Sections 1, 2(a), 4(i), 201(b), and 303(r) of the Communications Act.⁵⁰ Both the Commission and the Supreme Court have recognized that cable service is a proper target for exercise of the Commission’s ancillary authority.⁵¹

82. In fact, in the *MDU Order*, the Commission relied in the alternative on its ancillary authority to effectuate Sections 628 and 706 as the basis for its rule prohibiting exclusive contract clauses. The Commission explained that “[t]he prohibition we adopt here applies to ‘interstate and foreign communication by wire or radio,’ advances the purposes of both the 1992 Cable Act and Section 706 of the 1996 Telecommunications Act, and serves the public interest.” *MDU Order*, 22 FCC Rcd at 20261 ¶ 52.

⁵⁰ 47 U.S.C. §§ 151, 152(a), 154(i), 201(b), 303(r).

⁵¹ See *MDU Order*, 22 FCC Rcd at 20260-61 ¶¶ 52-53; *United States v. Southwestern Cable Co.*, 392 U.S. 157, 177-78 (1968) (holding, prior to Congress’ enactment of the Cable Act, that the Commission’s regulation of cable television systems was a valid exercise of ancillary jurisdiction).

83. In short, the Commission has ample power to grant this Complaint pursuant to Section 628(b) *and* the Commission's ancillary authority to further Sections 628 and 706.

VII. COUNT 1 — REFUSAL TO SELL PROGRAMMING IN VIOLATION OF THE COMMUNICATIONS ACT AND COMMISSION RULES

84. AT&T incorporates by reference the foregoing paragraphs as though fully stated herein.

85. Cox is engaged in unfair methods of competition and unfair and deceptive acts and practices by refusing to negotiate in good faith with AT&T for the licensing of Cox-4, while providing that programming to Time Warner, and by then advertising widely that Cox-4 is available only on cable.

86. Because AT&T cannot compete effectively in the market for video service without providing Cox-4 to U-verse TV subscribers, Cox's refusal to license Cox-4 to AT&T has the purpose and effect of preventing AT&T from providing satellite-delivered cable programming to consumers in San Diego.

87. Cox's conduct violates Section 628(b) of the Communications Act,⁵² and the Commission's rules, 47 C.F.R. §§ 76.1000 *et seq.*

VIII. REQUEST FOR DISCOVERY

88. Much of the relevant evidence in this case is in Cox's possession. Accordingly, AT&T requests discovery so that it may further substantiate its claims.

⁵² 47 U.S.C. § 548(b).

IX. REQUEST FOR PROMPT DECISION

89. The Commission can and should resolve this Complaint swiftly. The key facts are straightforward and indisputable and any further delay in granting AT&T access to “must have” programming will cause significant harm to consumers and undermine Congress’s objective of promoting competition and diversity in the delivery of video programming services. The Commission has stated that it will seek to resolve program access complaints involving refusals to sell “within five months of the submission of the complaint to the Commission.”⁵³ This or a shorter time frame is appropriate here so that AT&T will at least have sufficient time to advertise the new programming well prior to the commencement of next season’s spring training.

X. REQUEST FOR DAMAGES

90. AT&T has incurred significant costs due to the lack of Padres programming on U-verse TV. These costs fall into several distinct categories across AT&T’s business, and seriously compromise AT&T’s ability to launch a successful, competitive video offering.

91. First, the loss of actual and potential subscribers that AT&T suffers as a result of Cox’s withholding of Padres programming increases AT&T’s per-subscriber programming costs in San Diego. Video programming vendors typically charge a per-subscriber fee to MVPDs, which increases as the number of subscribers drops. Thus, as AT&T loses subscribers, it is forced to pay more in per-subscriber costs for *all* of its programming, across the board. This, of course, reduces AT&T’s profit margin for any customer—and by inflating the return AT&T

⁵³ Report and Order, *Implementation of the Cable Television Consumer Protection and Competition Act of 1992*, 13 FCC Rcd 15822, 15842 ¶ 41 (1998) (“1998 Implementation Order”); see also *2007 Program Access Order*, 22 FCC Rcd at 17855-57 ¶¶ 104-108 (reaffirming 5-month period for resolving program access complaints).

must make per-customer to cover its costs, it threatens to further compromise AT&T's ability to offer a viable competitive video service offering by putting upward pressure on AT&T's rates.

See Sambar Decl. ¶ 17.

92. Second, AT&T must pay more to market and advertise U-verse TV than it would in the absence of the Padres problem. AT&T has been forced to use more targeted and sophisticated—and thus more expensive—marketing campaigns to reach the subset of San Diego consumers who will consider U-verse despite the lack of Cox-4. And because the return on this discrete group is limited, it is not clear that AT&T will fully recover those costs (or that it would have expended the resources to specifically pursue this group in the absence of the Padres issue). In addition, AT&T has been compelled to offer promotions—such as free Padres tickets or gift cards—to persuade customers to try U-verse despite the lack of Cox-4. For a time, AT&T even offered free high-definition service to consumers in San Diego with the explicit aim of attracting fans of sports teams other than the Padres. These additional costs have burdened AT&T in San Diego, increasing its per-customer expenses and depressing its revenues accordingly. *See id.* ¶ 18.

93. Third, AT&T has been forced to bear higher transactional sales costs. Because Padres programming plays such a significant role in San Diego customers' MVPD choice, AT&T must (as described above) warn all new customers about the lack of Cox-4, and receive a customer acknowledgement of that disclosure. This increases the length of the average sales call, and imposes record-keeping and training requirements, all of which impose incremental costs on the company. *See id.* ¶ 19.

94. Fourth, and along similar lines, AT&T's customer service costs are higher as a result of dealing with increased rates of cancellation and disconnections from customers upset by the lack of Cox-4. Training and staffing costs also are incrementally higher; for example, AT&T's entire national U-verse call center team must be specially trained by personnel in San Diego regarding the lack of Padres programming. *See id.* ¶ 20.

95. In addition to these increased costs, AT&T also has suffered a loss of actual and potential customers as a result of Cox's withholding of Padres programming, as discussed above. Specifically, from September 2007 through July 2008, the unavailability of Cox-4 on U-verse TV has caused AT&T to lose nearly [highly confidential*** ***end] existing and potential customers. Specifically, [highly confidential*** ***end] potential customers chose not to sign up for U-verse service, [highly confidential*** ***end] potential customers cancelled their service orders for U-verse prior to installation, and [highly confidential*** ***end] existing customers disconnected their U-verse service due to the lack of Padres programming. *See id.* ¶¶ 24-28 & Ex. 7.

96. This has had a significant impact on AT&T's revenues, and that impact will continue to be felt going forward given the lost customer opportunities. Overall, AT&T estimates that by July 2008, it had lost over [highly confidential*** ***end] in present and expected gross revenues due to the lack of Padres programming. *See id.* ¶¶ 31-32 & Ex. 7. And even this assessment is low, since it fails to account for the fact that, over time, AT&T expects its per-customer revenues to climb significantly. If AT&T had adjusted for this phenomenon over the expected life of the customers it has lost due to Cox's withholding, the lost revenue would be even higher than is reflected in AT&T's calculation. *See id.* ¶ 32.

97. And the impact goes beyond U-verse-related revenues. AT&T has found that the ability to offer a meaningful alternative to the cable incumbent not only produces video revenues, but also helps AT&T stem the loss of legacy voice customers that might otherwise migrate to the cable platform. Specifically, offering a meaningful U-verse TV alternative allows AT&T to keep or win back those voice customers who prefer to purchase all their services from one vendor. The cable incumbents initially had a head start on the telephone companies in providing such bundled service offerings, but AT&T now can offer customers a meaningful cable television alternative together with voice and broadband. But if Cox's withholding of Padres programming undermines U-verse TV, AT&T may lose some customers—even legacy voice customers—altogether, and in some cases permanently. The loss thus goes beyond the U-verse business and can be persistent and severe. *See id.* ¶ 33.

98. Only some of these costs are readily quantifiable; yet all are real and have a pernicious effect on AT&T's ability to offer a viable competitive video service in San Diego. AT&T is in the process of modeling the financial impact that Cox's withholding has had on the company in San Diego. However, that process cannot be completed until AT&T's 2008 numbers are finalized. AT&T accordingly reserves the right to, and intends to, amend this Complaint to include a full statement of damages pursuant to 47 C.F.R. § 76.1003(h). In the interim, however, AT&T has filed this Complaint now in light of the urgent and critical need to resolve this Complaint and gain access to Padres programming well before the beginning of next year's baseball season. We urge the Commission to proceed with the merits of this Complaint and to revisit damages at a later date, pursuant to an amended complaint that AT&T intends to file as soon as possible.

XI. REQUEST FOR PENALTIES

99. Cox’s repeated, deliberate commission of program access violations with clear anticompetitive intent, and the resulting effect of stifling meaningful competition and choice in the San Diego marketplace, justify the imposition of forfeiture penalties under 47 U.S.C. § 503(b). In the *1998 Implementation Order*, 13 FCC Rcd at 15829 ¶ 9, the Commission identified its forfeiture authority as “an effective deterrent to anti-competitive conduct” that “can be used in appropriate circumstances as an enforcement mechanism for program access violations.” The Commission stated that it “intend[ed] to make greater use of [its forfeiture] authority to sanction unlawful conduct.” *Id.* The Commission should put this intent into effect to punish Cox for its wrongful, deliberately anticompetitive conduct.

XII. REQUEST FOR RELIEF

For the foregoing reasons, AT&T asks the Commission to grant the following relief:

- A. A declaration that Defendants have violated Section 628(b) of the Communications Act, 47 U.S.C. § 548(b), and Section 76.1001 of the Commission’s rules by refusing to license Cox-4 San Diego to AT&T;
- B. An injunctive order requiring Defendants immediately to negotiate a license agreement with AT&T for Cox-4 San Diego on nondiscriminatory terms and conditions;
- C. An order requiring Defendants to pay damages under 47 C.F.R. § 76.1003(h);
- D. An order requiring Defendants to pay forfeiture penalties under 47 U.S.C. § 503(b); and
- E. An order awarding AT&T all other appropriate relief.

Christopher M. Heimann
Gary L. Phillips
Paul K. Mancini
AT&T SERVICES, INC.
1120 20th St., NW, Suite 1000
Washington, DC 20036
(202) 457-3058

Respectfully submitted,

Lynn Charytan (HMZ)
Lynn R. Charytan
Heather M. Zachary
Dileep S. Srihari
WILMER CUTLER PICKERING
HALE AND DORR LLP
1875 Pennsylvania Ave., NW
Washington, DC 20006
(202) 663-6000

Counsel for Complainants AT&T Services, Inc. and AT&T California

September 11, 2008

REDACTED – FOR PUBLIC INSPECTION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

AT&T SERVICES, INC. AND PACIFIC
BELL TELEPHONE COMPANY D/B/A
SBC CALIFORNIA D/B/A AT&T
CALIFORNIA,

Complainants,

v.

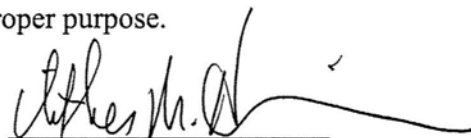
COX ENTERPRISES, INC. AND COX
COMMUNICATIONS, INC.,

Defendants.

File No. _____

VERIFICATION OF CHRISTOPHER M. HEIMANN

I have read AT&T's Program Access Complaint ("Complaint") in this matter and, pursuant to 47 C.F.R. § 76.6(a)(4), state that, to the best of my knowledge, information, and belief formed after reasonable inquiry, the Complaint is well grounded in fact and is warranted under existing law or a good faith argument for the extension, modification, or reversal of existing law. The Complaint is not interposed for any improper purpose.


Christopher M. Heimann

September 11, 2008


CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of September 2008, I caused copies of the foregoing Program Access Complaint (Public Version) with accompanying Declarations of Daniel York and Christopher Sambar to be served by first class mail, postage prepaid, upon the following:

Cox Communications, Inc.
1400 Lake Hearn Drive NE
Atlanta, Georgia 30319
(404) 843-5000

Andrew Merdek
General Counsel
Cox Enterprises, Inc.
6205 Peachtree Dunwoody Road
Atlanta, Georgia 30328
(678) 645-0000

Craig Nichols
Vice President / General Manager
Channel 4 San Diego
350 10th Avenue, Suite 500
San Diego, CA 92101
(619) 686-1900


Dileep S. Srihari

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

AT&T SERVICES, INC. AND PACIFIC
BELL TELEPHONE COMPANY D/B/A
SBC CALIFORNIA D/B/A AT&T
CALIFORNIA,

Complainants,

File No. _____

v.

COX ENTERPRISES, INC. AND COX
COMMUNICATIONS, INC.,

Defendants.

DECLARATION OF DANIEL YORK

1. My name is Daniel York. My business address is 1880 Century Park East, Suite 1101, Los Angeles, CA 90067.

2. Since November 2004, I have held the position of Executive Vice President – Content and Programming for AT&T Operations, Inc. In conjunction with AT&T Services, Inc., AT&T Operations, Inc. negotiates and purchases rights to television programming on behalf of AT&T California and other affiliated communications service providers (collectively, with AT&T Operations, Inc. and AT&T Services, Inc., “AT&T”).

3. In my position, I am responsible for developing AT&T’s content strategy and acquiring content for AT&T’s consumer platforms, including television, broadband, and mobile. Before joining AT&T, I was Senior Vice President of Programming and Development for iN DEMAND Networks, LLC, a leading video-on-demand and pay-per-view company. I

previously was employed by Home Box Office for over 12 years, most recently as Vice President and General Manager of HBO Pay-Per-View/Time Warner Sports.

AT&T'S INTERNET PROTOCOL VIDEO SERVICE

4. Project Lightspeed is AT&T's program to upgrade its communications networks by deploying high-capacity, fiber-optic facilities closer to residential customers. This multi-billion dollar investment is increasing the bandwidth available to residential end users in AT&T's local service territory and allowing AT&T to provide bundles of broadband communications services over integrated facilities. Those broadband services include enhanced voice services (including Voice over Internet Protocol, or "VoIP"), high-speed Internet access, and Internet Protocol video services sold under the service name of AT&T U-verse TV.

5. U-verse TV is a video subscription service offered as an alternative to—and in competition with—the service offered by incumbent cable operators, Direct Broadcast Satellite providers, and other multichannel video programming distributors ("MVPDs"). U-verse TV provides subscribers with a number of programming options, including traditional broadcast television programming, cable network programming, and video-on-demand content. The programming packages include a substantial amount of satellite-delivered video programming.

6. AT&T first launched U-verse TV service in San Antonio, Texas in 2006. Since then, AT&T has rolled out service in over 25 additional areas, including Houston, Dallas/Fort Worth, San Francisco/Oakland/San Jose, Kansas City, Los Angeles, and Milwaukee, among others. As of June 30, 2008, the U-verse TV service had approximately 549,000 customers nationwide and AT&T was performing roughly 15,000 new installations per week.

7. On June 4, 2007, AT&T launched U-verse TV service in San Diego, California. AT&T's service offering in San Diego includes a broad mix of the programming described

above, including over 250 channels of English and Spanish-language video programming, digital music channels, a video-on-demand library, and enhanced functions such as fast channel changing and network-supported picture-in-picture viewing. AT&T also offers premium service tiers with more channels of video programming. The offering also includes the option for high-speed broadband access at speeds up to 6 Mbps.

8. What U-verse TV in San Diego does *not* include, however, is channel Cox-4, despite repeated attempts to procure a license for that channel from Cox, as described below. Cox-4, known as Channel 4 San Diego, 4SD, or Channel 4 Padres, is a locally-originated cable channel owned and operated by Cox Communications, Inc. through its San Diego-based cable television system. Cox-4 has exclusive rights to broadcast San Diego Padres programming in the San Diego area. Cox also provides its own high-speed Internet access customers with exclusive access to online Padres programming through its “Padres.TV” service.

COX-4’S IMPACT ON U-VERSE TV IN SAN DIEGO

9. It is my view that the San Diego U-verse TV package suffers significantly in the marketplace because of the lack of Cox-4 programming. Coverage of local sports teams such as the Padres is, in my experience, a key driver in consumer selection of a multichannel video programming service. Such programming is regarded by many—and I understand that it has even been described by the Commission—as “must-have” programming. And in fact, consumers in San Diego place significant value on access to Padres games. The absence of Padres programming therefore is compromising AT&T’s ability to attract and retain San Diego subscribers for U-verse TV.

10. Because AT&T is at the vital “new entrant” stage in San Diego, it is important that we be able to establish a presence in San Diego quickly. Attaining a sufficient foothold in

the market in a reasonable time period is critical to attracting advertising at profitable rates and negotiating reasonable programming licenses. The more subscribers a provider has, the more attractive it becomes as an outlet for programming and advertising—and in turn, the more subscribers it then can attract. This “catch-22” situation faced by new entrants—one needs customers to get customers—is typically addressed by hitting the market with the best channel lineup possible, in order to immediately become an alternative that subscribers will consider. Accordingly, without the “must-have” programming that is a critical component of a viable service alternative, AT&T’s ability to attain a sufficient foothold in the market is compromised.

11. Thus, it has been, and remains, exceptionally important to AT&T to obtain access to Cox-4 so that we may offer a meaningful and sustainable video service alternative to San Diego consumers. For that reason, as I now describe below, we have repeatedly sought to obtain a license agreement from Cox for that programming. However, Cox has refused, from the start and consistently thereafter, even to engage in discussions with AT&T.

AT&T’S EFFORTS TO LICENSE COX-4

12. We first approached Cox in 2005—well before U-verse TV service was launched in San Diego—about negotiating a licensing agreement for Cox-4.

13. On October 5, 2005, J. Christopher Lauricella, then an Executive Director of AT&T Services, Inc., sent an email to Debbie Cullen of Cox expressing interest in a carriage agreement for Cox-4 San Diego. *See Exhibit 1.* Ms. Cullen did not reply.

14. On October 12, 2005, Mr. Lauricella sent essentially the same email to Debbie Ruth of Cox. *See Exhibit 2.* Ms. Ruth did not reply.

15. On October 17, 2005, I spoke on the telephone with Michael Miller of Cox regarding AT&T’s interest in licensing Cox-4 San Diego. Mr. Miller explained that Cox was not

accepting new affiliates. Later that same day, I emailed Mr. Miller, memorializing the conversation and requesting that Cox reconsider. *See* Exhibit 3. In that email, I explained that “the carriage of local sports programming is of critical importance and value to consumers, and is essential for a successful launch of a video service in ... San Diego.” *Id.* I also requested that Cox explain why it was unwilling to license Cox-4 to AT&T “so that we can discuss a possible solution.” *Id.*

16. On October 27, 2005, Mr. Miller emailed in response, “to reconfirm our position that we are not accepting new affiliates for our Cox Ch. 4 in San Diego at this time.” *See* Exhibit 4. His email stated that “[w]e are currently satisfied with our level of distribution of the service.” *Id.*

17. We subsequently launched U-verse TV in San Diego without Cox-4 in June 2007. We have had some penetration into the market, but it became evident after launch—and especially before and during the 2007 and 2008 baseball seasons—that the lack of Cox-4 was a serious impediment to our ability to attract and retain customers, as detailed further in the companion declaration of Christopher Sambar.

18. I therefore contacted Cox by telephone again on June 27, 2008 to resume efforts to negotiate the licensing of Cox-4. Craig Nichols of Cox Media (who also is the General Manager of Cox-4) returned my call that day and stated that Cox was unwilling to license the programming to non-wireline or telephone video carriers. That same day, I emailed Mr. Nichols to memorialize our conversation and stated that “I sincerely hope you’ll allow us to become a distributor of this valuable content.” *See* Exhibit 5.

19. On July 7, 2008, having received no reply from Cox to this email, I sent an additional email to Mr. Nichols, expressing interest in licensing Cox-4. *See id.*

20. On July 9, 2008, Mr. Nichols wrote to me and reiterated that Cox would not license the channel. In that email, Mr. Nichols wrote, “[W]e are not currently distributing that channel to non-wireline or telco cable providers.” *See id.*

21. On July 18, 2008, I sent a letter to Mr. Nichols, copying Cox General Counsel Andrew A. Merdek. That letter informed Cox of AT&T’s intention to file a program access complaint if the companies were unable to reach a carriage agreement for Cox-4. *See Exhibit 6.* In that letter, I again asked Cox to reconsider and explained that “the Cox-4 programming, and in particular the San Diego Padres baseball games, is critical to AT&T’s ability to provide a viable competitive video program service to San Diego consumers.” *Id.*

22. In a letter dated July 30, 2008, Mr. Nichols again refused to negotiate with AT&T concerning carriage of Cox-4. *See Exhibit 7.* Although he acknowledged that Cox-4 is available to other *cable* providers, he nonetheless refused to enter into discussions with AT&T: “While Cox makes Channel 4 San Diego available to some other traditional wireline cable competitors in the San Diego area, we reserve the right to make our own business decisions on additional distribution channels.” *Exhibit 7 at 1-2.* He asserted that Cox had this right because the particular programming at issue was not satellite-delivered, *id.* at 1, and argued that depriving AT&T of the programming would not affect its ability to provide a successful competitive service, *id.* at 2.

23. As of today, AT&T still does not have access to Cox-4. There are less than two months left in the current baseball season, and less than eight months left until the start of the 2009 baseball season. We remain concerned that the lack of Cox-4 will continue to have a detrimental impact on our ability to achieve sufficient penetration to create an economically

viable service in San Diego; the absence of that programming continues to hinder our ability to provide meaningful service.

Pursuant to 28 U.S.C. § 1746 and 47 C.F.R. § 1.16, I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on September 8, 2008

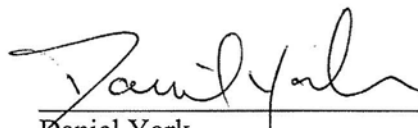

Daniel York

Exhibit 1

From: LAURICELLA, J. C (ATTOPS) [jl2535@att.com]
Sent: Wednesday, October 05, 2005 1:48 PM
To: debbie.cullen@cox.com
Subject: SBC - Cox Channel 4 (San Diego)

Debbie,

My name is Chris Lauricella, and I work with SBC acquiring content for our upcoming video platform. SBC would like to discuss with Cox Communications a carriage agreement for Cox Channel 4 in San Diego, and I'm told you are the correct person to speak with. Is that correct; and, if so, can you please tell me how you would like to move forward with this request?

thanks,

Chris Lauricella


 | chris lauricella | programming | 310.552.0288

Exhibit 2

From: LAURICELLA, J. C (ATTOPS) [jl2535@att.com]
Sent: Wednesday, October 12, 2005 8:17 PM
To: Debby.ruth@cox.com
Subject: SBC - Cox Channel 4 (San Diego)


Debbie,

My name is Chris Lauricella, and I work with SBC acquiring content for our upcoming video platform. It is my understanding that you and Dan York (my boss) spoke today about SBC's interest in a carriage agreement for Cox Channel 4 in San Diego. Please feel free to contact me if you have any updates and/or questions about this request.

I look forward to hearing from you.

thanks,

Chris Lauricella

 | **chris lauricella | programming | 310.552.0288**

J. Christopher Lauricella

SBC Operations

1880 Century Park East

Suite 1101

Los Angeles, California 90067

310.552.0288 ph

310.552-2244 fax

310.200.9436 cell

chris.lauricella@sbc.com

Exhibit 3

From: YORK, DANIEL (ATTOPS) [dy9626@att.com]
Sent: Monday, October 17, 2005 6:25 PM
To: mike.miller@coxmedia.com
Cc: LAURICELLA, J. C (ATTOPS)
Subject: Cox 4 San Diego

Mike-

Thanks for taking the time to return my previous calls and Chris Lauricella's email regarding our interest in licensing Cox 4-San Diego from Cox Communications. As we've indicated, we will be introducing a new video service in the station's and Padres' local footprint. As you know, the carriage of local sports programming is of critical importance and value to consumers, and is essential for a successful launch of a video service in the San Diego market. You said this morning that you were not accepting new affiliates for the service at this time. We hope you will reconsider, and again ask that you respond to this note with a more favorable position or a confirmation that you are not offering it to us. If there is some reason why Cox 4 is unable to accommodate new affiliates at this time, we would appreciate an explanation so that we can discuss a possible solution. Thanks so much.

Looking forward to hearing from you.

Sincerely,

Dan York

Daniel York
Programming
SBC Communications
1880 Century Park East
Los Angeles, CA 90067
O: 310-552-0280
F: 310-552-2244
dan.york@sbc.com

Exhibit 4

-----Original Message-----

From: mike.miller@coxmedia.com <mike.miller@coxmedia.com>

To: YORK, DANIEL (SBC-OPS) <DY9626@camail.sbc.com>

Sent: Thu Oct 27 08:02:31 2005

Subject:

Dear Dan:

I am writing in response to your email to me dated October 17 and in follow up to our earlier telephone conversation to reconfirm our position that we are not accepting new affiliates for our Cox Ch. 4 in San Diego at this time. We are currently satisfied with our level of distribution of the service. As the marketplace evolves over time, we will continue to monitor the situation and evaluate whether alterations or additions to our distribution system become warranted.

Incidentally, I would agree that it is important for a multichannel video programming distributor to offer its customers a variety of sports

(as well as other) programming. But I disagree strongly that the carriage of any one particular channel featuring local sports would ever

be "essential" to the successful launch of a new multichannel video service, as you suggested in your email. In any event, as you undoubtedly are aware, there are a large number of satellite delivered programming networks and broadcast networks offering a wide range of local, regional and national sports programming that I believe you are free to license for the San Diego market or more broadly, including Fox Sports West, Fox Sports West II, Fox Sports Espanol, ESPN, ESPN 2, College Sports Television, NFL Network, Outdoor Life Network, KTLA, KCAL, TBS, TNT and WGN to name a few.

Thank you for your inquiry.

Sincerely,

Mike Miller

Exhibit 5

-----Original Message-----

From: craig.nichols@coxmedia.com [mailto:craig.nichols@coxmedia.com]
Sent: Wednesday, July 09, 2008 2:49 PM
To: dan.york@att.com
Subject: Re:

Dear Dan,

Thank you for your interest in Channel 4 San Diego. As I indicated to you, we are not currently distributing that channel to non-wireline or telco cable providers. However, we continually re-examine our distribution strategy so you should feel free to contact us again in the future if you remain interested in carriage.

Thank you,

Craig

----- Original Message -----

From: YORK, DANIEL (ATTOPS) <dy9626@att.com>
To: Nichols, Craig (CMI-San Diego)
Sent: Mon Jul 07 11:24:39 2008
Subject: RE:

Craig-

Hello, I'm following up regarding distributing Cox-4 San Diego.

Looking forward to hearing from you. Thanks.

Dan

CONFIDENTIAL AND PROPRIETARY AT&T INFORMATION INTENDED FOR LISTED RECIPIENT(S) ONLY. DO NOT DISTRIBUTE

>
> _____
> From: YORK, DANIEL (ATTOPS)
> Sent: Friday, June 27, 2008 5:15 PM
> To: craig.nichols@coxmedia.com
> Subject:
>
> Hi Craig-
> Thanks so much for returning my call today. It was a pleasure to meet
>
> you on the phone.
>
> To reiterate the reason for my call, we are very interested in
> carrying Cox-4 San Diego on our television and broadband platforms
> (and whatever other media rights you may possess). I called looking
> to speak with Mike Miller, with whom I've spoken previously, but the
> receptionist directed me to you. You said you are not currently

> making Cox-4 available to non-wireline or telco distributors, but I
> sincerely hope you'll allow us to become a distributor of this
> valuable content.
>
> Below is my contact information. I look forward to your favorable
> reply. Thanks and have a great weekend.
>
> Best,
>
> Dan
>
>
> _____
> Daniel York
> Executive Vice President
> Content and Programming
> AT&T
> 1880 Century Park East, Suite 1101
> Los Angeles, CA 90067
> O: 310-552-0280
> dan.york@att.com
>

Exhibit 6



Daniel R. York
Executive Vice President
Programming

AT&T Inc.
1880 Century Park East
Suite 1101
Los Angeles, CA 90067

T: 310.552.0280
F: 310.552.2244
dan.york@att.com
www.att.com

July 18, 2008

Dear Mr. Nichols:

I write in regard to Cox Media's refusal to license Cox-4 San Diego to AT&T.

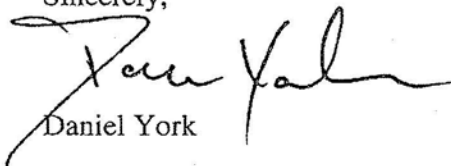
As you know, our recent phone conversation of June 27 and the ensuing email exchange was the most recent in a series of attempts by AT&T to license Cox-4 San Diego for transmission on AT&T U-Verse Service. We first expressed interest in this programming in a series of email and telephone conversations in October of 2005 prior to the rollout of U-Verse in San Diego. Mike Miller of Cox Media informed us then that Cox was unwilling to license the station because Cox was "not accepting new affiliates" for the service at that time. As you are aware, I contacted you again on June 27, 2008 in another attempt to explore the possibility of licensing Cox-4 San Diego, and Cox again refused to license the programming, stating, in your July 9 email to me, "we are not currently distributing that channel to non-wireline or telco cable providers."

As AT&T has consistently made clear, the Cox-4 programming, and in particular the San Diego Padres baseball games, is critical to AT&T's ability to provide a viable competitive video program service to San Diego consumers. As Cox knows—and as your company's advertising makes clear—the Padres games are a driving factor in many consumers' choice of a multi-channel video programming distributor. Cox's refusal to deal is therefore anticompetitive in both intent and purpose and limits choice for San Diego consumers in the video marketplace, not only for delivery of the relevant sports programming, but more generally. Cox's refusal to deal also has anticompetitive effects in the markets for broadband service and for the triple play of broadband, voice, and video which the full U-Verse service offers – also in competition with Cox.

Therefore, unless Cox and AT&T can reach a carriage agreement within the next ten days, AT&T intends to file a program access complaint with the FCC under 47 C.F.R. § 76.1003 on the grounds that that Cox's actions violate 47 U.S.C. § 548(b). Cox's conduct is an "unfair method[] of competition..., the purpose [and] effect of which is to hinder significantly [AT&T] from providing...satellite broadcast programming to subscribers or consumers." This letter serves as the notice required under 47 C.F.R. § 76.1003(b).

We very much hope you will reconsider your position so that we can reach a mutually beneficial licensing arrangement without a costly FCC proceeding.

Sincerely,



Daniel York

Exhibit 7

July 30, 2008

VIA OVERNIGHT MAIL AND FACSIMILE

Mr. Daniel R. York
Executive Vice President, Programming
AT&T Inc.
1880 Century Park East, Suite 1101
Los Angeles, CA 90067

Dear Mr. York:

This responds to your letter to me dated July 18, 2008 regarding AT&T's notice of intention to file a program access complaint at the Federal Communications Commission (FCC) regarding Channel 4 San Diego.

As AT&T surely knows and as explained further below, there is no factual or legal basis for such a complaint under the FCC's rules as those rules currently exist and as the FCC has interpreted them to date. Accordingly, we urge AT&T to withdraw its threat and desist from filing any such complaint. To persist in filing a complaint would be a serious abuse of process.

Section 628(b) of the Communications Act as amended, 47 USC 548(b), the legal provision to which you refer, applies expressly and exclusively to "satellite cable programming" and "satellite broadcast programming." Programming delivered to cable head ends by terrestrial means and not by satellite falls outside the statutory and regulatory definitions of "satellite cable" and "satellite broadcast" programming. As you know, Channel 4 San Diego is today and has been delivered to cable distributors' head ends by terrestrial means and not by satellite. Consequently, Channel 4 San Diego is not "satellite cable programming" or "satellite broadcast programming." Section 628 and the implementing FCC regulations simply do not apply to the programming that is the subject of your letter.

In the Comments of AT&T Inc. filed in FCC MB Docket No. 07-198, AT&T urged the FCC to *change* its program access rules so as to extend those rules to terrestrially delivered programming. (AT&T even made a footnote reference in that pleading to certain sports programming in San Diego, obviously referring to Channel 4 San Diego, that the FCC had previously said was terrestrially delivered and not subject to the existing program access rules.) To date, the FCC has not completed its notice and comment proceeding in Docket 07-198, and most assuredly has not changed the rules to encompass terrestrially delivered programming. Moreover, the FCC itself and many commenters have indicated that the FCC may lack the power to change the rules in that fashion. In any case, the law today is that Section 628 of the statute and the implementing rules do not apply to Channel 4 San Diego. Cox has every intention of obeying the law as it exists, and we are doing so in this instance.

While the FCC rules do not apply in any event, I might observe that there is nothing inherently anticompetitive or unfair or discriminatory for a supplier to choose particular methods/companies and not others for distributing its output to end users. In the communications field and in our broader economy, that is the way business is normally conducted, i.e., with the creator/supplier free to choose its own methods and channels of distribution. While Cox makes Channel 4 San Diego available to some other traditional wireline cable competitors in the San Diego market, we reserve the right to make our own

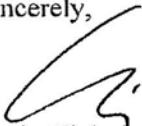
Mr. Daniel R. York
July 30, 2008
-2-

business decisions on additional distribution channels. The business decisions on our current distribution channels preceded AT&T's arrival in the video marketplace. When and if in the future Cox determines in its own best business judgment that some different distribution strategy would be more effective, Cox will put such new strategy in effect in a fair, non-discriminatory, and pro-competitive way.

I cannot let pass without comment, your assertion that AT&T's access to the Padres games on Channel 4 San Diego is critical to AT&T's ability to provide cable programming and the full U-Verse broadband, voice, and video service. As you no doubt know, there is a vast array of professional and amateur sports programming, including programming of particular appeal to viewers residing in the San Diego region, available for carriage there by AT&T. In prior correspondence, we have listed some of that programming and I will not burden this response with an elaborate current listing of such programming. AT&T also has the resources (far in excess of Cox's resources) to acquire and/or create additional new programming that would appeal strongly to San Diego viewers. As you know, Channel 4 San Diego's cable distributors today face competition from other multichannel video programming distributors, such as DirecTV, that offer subscribers exclusive sports and other programming. Competition and diversity thrive when rival providers are able to differentiate the services that they offer consumers. Certainly in San Diego AT&T has access to sufficient sports and non-sports programming so that it is not hindered significantly or prevented from offering video and the broader U-Verse service in the San Diego area.

Lastly, the facts belie your assertion that Cox's conduct has in some way hindered AT&T's ability to provide a viable competitive video program service to its customers. In your recent 2Q results, AT&T crowed about its "further ramp in AT&T U-verse TV subscribers, with a net subscriber gain of 170,000 to reach 549,000 in service; on trajectory to exceed 1 million subscribers in service by the end of this year." You further reported that "U-verse network deployment is on schedule, install times continue to decline and the attach rates for broadband service continue to be high." Further, you reported that revenues from the sale of your video service are continuing to offset traditional voice access line pressures." Thus, it would appear that your claims of anticompetitive harm are greatly exaggerated.

Sincerely,



Craig Nichols
Vice President/General Manager
Channel 4 San Diego

cc: Mike Miller

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

AT&T SERVICES, INC. AND PACIFIC
BELL TELEPHONE COMPANY D/B/A
SBC CALIFORNIA D/B/A AT&T
CALIFORNIA,

Complainants,

v.

COX ENTERPRISES, INC. AND COX
COMMUNICATIONS, INC.,

Defendants.

File No. _____

DECLARATION OF CHRISTOPHER SAMBAR

1. My name is Christopher Sambar. My business address is 3883 Murphy Canyon Road, Room 290, San Diego, CA 92123.

2. Since September 2006, I have held the position of General Manager for AT&T U-verse in the San Diego area. In my position I am responsible for network and field operations, the engineering build plan, marketing strategy, and sales strategy and implementation for U-verse in San Diego. Before assuming this position, I held positions within AT&T having responsibility over network operations, sales strategy, and small and medium business sales.

IMPORTANCE OF PADRES PROGRAMMING FOR U-VERSE IN SAN DIEGO

3. AT&T's U-verse platform in San Diego supports three service offerings—a high-speed Internet access service, a voice-over-Internet-Protocol (“VoIP”) service, and a

multichannel video programming service (“U-verse TV”). Nearly all U-verse subscribers in San Diego—**[highly confidential*** ***end]** percent—purchase packages that include U-verse TV service. *See* Exhibit 1.

4. Survey data and objective sales data compiled by AT&T demonstrate that the lack of the Cox-4 channel, and, in particular, Padres programming, is significantly hampering AT&T’s efforts to gain and keep U-verse subscribers in San Diego.

5. In April 2007, AT&T’s Customer Analytics and Research division conducted a study examining the impact that the lack of Padres programming would have on AT&T’s ability to attract and retain customers. *See* Exhibit 2. The study group was composed of **[highly confidential*** ***end]** consisting of AT&T customers from the San Diego area that responded to an email solicitation **[highly confidential*** ***end]**. *See id.* at 3.

6. When asked to select “up to 10 channels that you would say are your ‘favorite’ channels,” **[highly confidential*** ***end]** percent of the 2007 survey respondents included the Padres Channel, *i.e.*, Cox-4, as one of their favorites. *See id.* at 14. Of that sub-sample, **[highly confidential*** ***end]** percent would “definitely” switch their cable or satellite provider if the provider “decided to drop” the Padres Channel. *See id.* at 15. When asked, “How important is it [to] you to have the Padres Channel included as part of your cable or satellite channel lineup?,” **[highly confidential*** ***end]** percent of all panel participants described it as “extremely important” with another **[highly confidential*** ***end]** percent describing it as “important.” *See id.* at 19. Individual comments **[highly confidential*** ***end]** again confirmed that many participants would not accept any substitute for

the Padres Channel, and would not consider any video subscription service that lacked Padres programming. *See id.* at 22 and Exhibit 3.

7. In March 2008, the study was repeated and yielded similar results. *See* Exhibit 4. **[highly confidential*** ***end]** percent of the 2008 survey participants said that it was “extremely important” to have the Padres Channel included as a part of their cable or satellite channel lineup, with another **[highly confidential*** ***end]** percent stating that it was “important.” *See id.* at 18. Further, the study asked respondents to rank possible alternatives to receiving the Padres Channel, including a provider’s offer of substitutes such as free tickets to a Padres game or a \$50 Visa gift card. But when asked “how likely would you be to consider service” from a provider that “offered your first choice” of such alternatives, over **[highly confidential*** ***end]** percent of those surveyed still responded they were “extremely unlikely” or “somewhat unlikely” to consider service from a provider that did not offer the Padres Channel. *See id.* at 16-17.

8. Field data provide similar evidence concerning the detrimental impact that lack of Padres programming has on subscriptions to AT&T’s U-verse service. A January 2008 study of door-to-door U-verse sales visits in the San Diego area found that, among customers who declined to purchase U-verse, **[highly confidential*** ***end]** percent attributed their decision to the lack of Padres programming. *See* Exhibit 5.

9. Similarly, from March through May 2008, AT&T’s customer-retention “save team” spoke with numerous U-verse subscribers in San Diego who either (1) were disconnecting their service, or (2) had ordered service but were cancelling their order prior to activation of the service. *See* Exhibit 6. The save team’s data indicates that **[highly confidential*****

end] percent of service disconnections and [highly confidential ***end] percent of order cancellations during that period were due to the lack of Padres programming. *See id.*

10. A comparison with other areas also indicates that U-verse sales in San Diego have suffered as a result of Cox's withholding of Padres programming. For the period from September 2007 through July 2008, the monthly rate of U-verse sales in the San Diego area was [highly confidential*** ***end] per thousand living units. However, the average monthly sales rate for [highly confidential***

end] was [highly confidential ***end] per thousand living units, with [highly confidential*** ***end]. Thus, San Diego's U-verse sales penetration rate was [highly confidential*** ***end] percent lower than might reasonably have been expected.

11. Similarly, San Diego's "churn" rate—the rate at which existing subscribers disconnect their service—is higher than the rate AT&T has experienced [highly confidential*** ***end]. For the period from September 2007 through July 2008, San Diego's monthly churn rate averaged [highly confidential*** ***end] percent. *See Exhibit 7.* Over the same period, the average churn rate from [highly confidential***

end] was [highly confidential ***end] percent. San Diego's U-verse churn rate was thus [highly confidential*** ***end] percent higher than expected.

12. The role that the absence of Padres programming plays in disconnections and order cancellations is so significant that AT&T has found it necessary to modify its point-of-sale

order form to include an explicit customer disclosure regarding the lack of Padres programming. *See* Exhibit 8. Every customer ordering U-verse through AT&T's door-to-door or event-based sales channels must sign this disclosure, and customers that order over the phone hear an oral disclosure concerning the lack of Padres programming to confirm that they understand this at the time they subscribe.

13. Furthermore, Cox itself actively is using its exclusive access to Padres programming to differentiate its service from U-verse. Cox's website, for example, advertises Cox-4 as "All Padres . . . All HD . . . All the time . . . **only on cable!**" Exhibit 9 (emphasis in original). This same statement appears in Cox's email advertising. *See* Exhibit 10. And the company's website also proclaims that "Cox values its partnership with the local community and will give you the best coverage of local sports with Channel 4 San Diego, including 150 Padres games in HD. *You won't find that on satellite.*" *See* Exhibit 9 at 5 (emphasis in original). Cox's television advertising similarly touts its exclusive access to Padres programming. *See* Exhibit 11. Cox recently has started offering its own high-speed Internet customers exclusive access to "Padres.TV"—a special service allowing Cox subscribers to watch all Padres games online. *See* Exhibit 12.

14. Finally, despite withholding Cox-4 from AT&T, Cox licenses the channel to Time Warner, which provides incumbent cable services in areas adjacent to Cox's San Diego footprint. With less than one percent overlap between Cox's and Time Warner's San Diego footprints, Time Warner generally does not compete with Cox. Notably, Time Warner's advertising in San Diego, like that of Cox, trumpets that Cox-4 is available "exclusively on cable." *See* Exhibit 13.

15. In short, there is ample evidence that by withholding Cox-4, and the Padres programming in particular, Cox has directly hindered AT&T's ability to offer a video subscription service in San Diego that customers will consider a viable alternative to Cox's incumbent cable service.

COSTS INCURRED DUE TO LACK OF PADRES PROGRAMMING

16. AT&T has incurred significant costs due to the lack of Padres programming on U-verse TV. These costs fall into several distinct categories across AT&T's business, and seriously compromise AT&T's ability to launch a successful, competitive video offering.

17. First, the loss of actual and potential subscribers that AT&T suffers as a result of Cox's withholding of Padres programming increases AT&T's per-subscriber programming costs in San Diego. Video programming vendors typically charge a per-subscriber fee to MVPDs, which increases as the number of subscribers drops. Thus, as AT&T loses subscribers, it is forced to pay more in per-subscriber costs for *all* of its programming, across the board. This, of course, reduces AT&T's profit margin for any customer—and by inflating the return AT&T must make per-customer to cover its costs, it threatens to further compromise AT&T's ability to offer a viable competitive video service offering by putting upward pressure on AT&T's rates.

18. Second, AT&T must pay more to market and advertise U-verse TV than it would in the absence of the Padres problem. AT&T has been forced to use more targeted and sophisticated—and thus more expensive—marketing campaigns to reach the subset of San Diego consumers who will consider U-verse despite the lack of Cox-4. And because the return on this discrete group is limited, it is not clear that AT&T will fully recover those costs (or that it would have expended the resources to specifically pursue this group in the absence of the Padres issue).

In addition, AT&T has been compelled to offer promotions—such as free Padres tickets and gift cards—to persuade customers to try U-verse despite the lack of Cox-4. For a time, AT&T even offered free high-definition service to consumers in San Diego with the explicit aim of attracting fans of sports teams other than the Padres. These additional costs have burdened AT&T in San Diego, increasing its per-customer expenses and depressing its revenues accordingly.

19. Third, AT&T has been forced to bear higher transactional sales costs: Because Padres programming plays such a significant role in San Diego customers' MVPD choice, AT&T must (as described above) warn all new customers about the lack of Cox-4, and receive a customer acknowledgement of that disclosure. This increases the length of the average sales call, and imposes record-keeping and training requirements, all of which impose incremental costs on the company.

20. Fourth, and along similar lines, AT&T's customer service costs are higher as a result of dealing with increased rates of cancellation and disconnections from customers upset by the lack of Cox-4. Training and staffing costs also are incrementally higher; for example, AT&T's entire national U-verse call center team must be specially trained by personnel in San Diego regarding the lack of Padres programming.

LOST CUSTOMERS AND REVENUES DUE TO LACK OF PADRES PROGRAMMING

21. In addition to increased costs, AT&T also has lost customers and suffered substantially decreased revenues as a result of Cox's withholding of Padres programming.

22. During the relevant time period, AT&T's total number of U-verse subscribers in service in San Diego increased from approximately [highly confidential*** ***end] at the beginning of September 2007 to approximately [highly confidential*** ***end] at

the end of July 2008. AT&T's gross sales for U-verse in San Diego during that period were [highly confidential*** ***end] service orders. However, the evidence above demonstrates that AT&T would have had more sales if it had had access to Padres programming during the relevant period; the lack of programming led to many lost sales opportunities.

23. Further, [highly confidential*** ***end] of AT&T's service orders during this period were cancelled prior to the initiation of service. In addition, [highly confidential*** ***end] customers disconnected their existing service. *See* Exhibit 7. As discussed above, many of these subscribers were lost due to the lack of Padres programming, which led both to (1) a higher rate of cancellations prior to service activation and (2) a higher rate of subscriber disconnections following activation ("churn").

24. **Lost Sales:** AT&T experienced a combined loss of sales of [highly confidential*** ***end] customers for the relevant time period due to the lack of Padres programming. This figure is based on the conservative assumption that [highly confidential*** ***end] percent of potential customers chose not to enroll in U-verse service due to the unavailability of Padres programming. That assumption, in turn, is derived from the 2008 survey conducted by AT&T's Customer Analytics and Research division, in which approximately [highly confidential*** ***end] percent of potential customers reported that it was "extremely important" to have the Padres Channel included in their channel lineup. *See* Exhibit 4 at 18; *see also* ¶ 7 above. This estimate is conservative because (1) it does not include the additional [highly confidential*** ***end] percent of potential customers who described the Padres Channel as merely "important," *see id.*; and (2) it is lower than the [highly confidential*** ***end] percent of customers who reported that they would be "extremely

unlikely” to purchase service from any provider who did not include the Padres Channel, even if [highly confidential]*** ***end].

See Exhibit 4 at 16-17.

25. Using the [highly confidential]*** ***end] percent assumption concerning customers lost as a result of the lack of Padres programming, the number of lost sales opportunities was computed on a monthly basis by dividing the actual U-verse San Diego gross sales figure for each month by [highly confidential]*** ***end] to arrive at the number of gross sales that reasonably could have been expected had AT&T carried the Padres Channel. See Exhibit 7. The difference between this number and the actual U-verse sales figure for each month was then discounted by a cancel rate adjustment and a churn rate adjustment to account for the number of potential sales that might have been lost anyway due to normal cancellation or churn. See *id.* These calculations show that AT&T’s net loss in sales for the period due to the lack of Padres programming was determined to be [highly confidential]*** ***end] customers.

26. **Increased Cancellations:** AT&T additionally experienced a loss of [highly confidential]*** ***end] customers for the relevant time period due to increased order cancellations as a result of the lack of Padres programming. This figure is based on the AT&T “save team” data compiled between March and May 2008 showing that [highly confidential]*** ***end] percent of cancellations during that time period were due to the lack of Padres programming. See Exhibit 6; see also ¶ 9 above. The number of cancellations due to the lack of Padres programming was computed on a monthly basis by multiplying the total number of actual U-verse cancellations by [highly confidential]*** ***end] percent.

27. **Increased Churn:** Finally, AT&T experienced a loss of [highly confidential]***
***end] customers during the relevant time period due to increased service disconnections
("churn") from the lack of Padres programming. This figure is based on the AT&T "save team"
data compiled between March and May 2008 showing that [highly confidential]***
***end] percent of cancellations during that time period were due to the lack of Padres
programming. *See* Exhibit 6; *see also* ¶ 9 above. The number of service disconnections due to
lack of Padres programming was computed on a monthly basis by multiplying the total number
of actual U-verse calculations by [highly confidential]*** ***end] percent.

28. Thus, AT&T incurred a total of [highly confidential]*** ***end] lost
customers during the relevant time period due to the lack of Padres programming, based on the
combination of lost sales, increased order cancellations, and increased churn. *See* Exhibit 7.

29. AT&T's average monthly "churn" rate for U-verse in San Diego during the
relevant time period was [highly confidential]*** ***end] percent. *See* Exhibit 7. Based
on this rate, the average life-cycle of a typical customer in San Diego during the relevant time
period was extrapolated to be [highly confidential]*** ***end] months.

30. Cox's withholding of Padres programming and the resulting loss of existing and
potential customers has significantly impacted AT&T's present and expected revenues. AT&T's
average monthly revenue per user for U-Verse in San Diego is [highly confidential]***
***end]. *See* Exhibit 1. This revenue comes not only from U-verse TV, but also from the voice
and high-speed Internet services that San Diego customers purchase as part of their U-verse
bundles (nearly all of U-verse platform customers in San Diego—[highly confidential] ***
***end] percent—purchase video service). Accordingly, this revenue figure is weighted to

account for the percentage of subscribers purchasing different U-verse service components. *See id.*

31. Based on a total of [highly confidential*** ***end] lost subscriber opportunities, an average subscriber lifetime of [highly confidential*** ***end] months, and revenue of [highly confidential*** ***end] per subscriber, AT&T's combined losses of present and expected revenues due to Padres-related lost customer opportunities during the relevant time period were [highly confidential*** ***end]. *See* Exhibit 7.

32. Overall, therefore, AT&T estimates that it has lost over [highly confidential*** ***end] in gross revenues from September 2007 through July 2008 due to the lack of Padres programming. *See* Exhibit 7. And even this assessment is low, since it fails to account for the fact that, over time, AT&T expects its per-customer revenues to climb significantly. If AT&T had adjusted for this phenomenon over the expected life of the customers it has lost due to Cox's withholding, the lost expected revenue would be even higher than is reflected in AT&T's calculation.

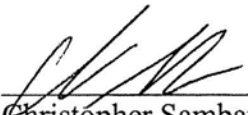
33. And the impact goes beyond U-verse-related revenues. AT&T has found that the ability to offer a meaningful alternative to the cable incumbent not only produces video revenues, but also helps AT&T stem the loss of legacy voice customers that might otherwise migrate to the cable platform. Specifically, offering a meaningful U-verse TV alternative allows AT&T to keep or win back those voice customers who prefer to purchase all their services from one vendor. The cable incumbents initially had a head start on the telephone companies in providing such bundled service offerings, but AT&T now can offer customers a meaningful

cable television alternative together with voice and broadband. But if Cox's withholding of Padres programming undermines U-verse TV, AT&T may lose some customers—even legacy voice customers—altogether, and in some cases permanently. The loss thus goes beyond the U-verse business and can be persistent and severe.

REDACTED – FOR PUBLIC INSPECTION

Pursuant to 28 U.S.C. § 1746 and 47 C.F.R. § 1.16, I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on September 8, 2008



Christopher Sambar